Insights Live: Withdrawal strategies in retirement

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TRANSCRIPT

SPEAKERS:

Ally Donnelly Jessica Maloy Tim Collins Jerry Patterson

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Mary Kay Leydon: Good afternoon, and thank you for joining our webinar today, *Insights* Live, Retirement Income, Withdrawal Strategies in Retirement. I'm Mary Kay Leydon with Educational Events here at Fidelity. And before we begin, I'd like to mention that Fidelity does not give tax or legal advice, and nothing we discuss here today should be interpreted as tax or legal advice. The information we're providing is going to be general in nature, and it 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.

With that covered, why don't we go ahead and get started? I'd like now to introduce our moderator for this webinar, Ally Donnelly. Ally is an award-winning former journalist, and now the editorial director and digital content lead at Fidelity Investments. Ally?

Ally Donnelly: Thanks, MK. And thanks to you, our viewers, for tuning in and submitting questions during registration. They really help shape today's discussion. So we're excited to discuss an important topic, a key part of just about everyone's retirement plan, retirement income.

This is the second of three webinars we're hosting on the subject. In November, if you remember, we covered how to generate income in retirement. And in January, we'll tackle tax-smart strategies. Today, our panel of professionals is going to do a deep dive on planning for the unexpected and for essential expenses, emergencies and discretionary spending, managing health care and long-term care expenses, thoughts on supplemental health care coverage, including Medicare, and withdrawal rules and strategies for different types of accounts, including those with required minimum distributions.

Let me introduce them. Our panelists today are Tim Collins, regional vice president, Fidelity Investments Life Insurance Company, Jessica Maloy, vice president wealth planner, Fidelity Investments, and Jerry Patterson, president, Fidelity Investments Life Insurance Company. That's a mouthful.

Panelists, why don't we go around the horn and have each of you introduce yourselves and talk a little bit about the work you do and what you bring to the conversation. Jessica, let's start with you.

Jessica Maloy: Thanks so much, Ally. So my name is Jessica Maloy, and I am a wealth planner for Fidelity. I work in our Southlake, Texas, Investor Center. And I have been with the firm for 15 years and in this industry for 24. And I specialize in partnering with families, helping them to create very holistic financial plans.

ALLY: Terrific. Tim?

Tim Collins: Yeah. Thank you, and hello, everybody. My name is Tim Collins, again, Regional Vice President with Fidelity Investments. My job is really straightforward, is very simple, is to help all of you, all of our clients put together actionable and personal financial plans so you can do your retirement dream, you can live your best life in retirement. It's simple, straightforward. It can be complicated. I've been with Fidelity for 22 years. My focus really is identifying the potential risks in someone's plan, the impact of those risks on your situation, and the ways to mitigate them.

ALLY: Great. Jerry, how about you?

Jerry Patterson: Ally, glad to be here. I just hit my one-year mark with Fidelity, where I'm responsible for the protection solutions that we deliver to our clients, including things like guaranteed income solutions, life insurance, and long-term care insurance. Prior to that, I spent 25 years before this working for a number of companies, where I focused on helping businesses provide compelling health and retirement benefits to their employees and helping individuals find that financial security that we're all striving for. I actually began my career as an estate planning attorney in Kansas City, where I focused on things like helping clients build legacy plans and transition businesses to the next generation. I'm here in Boston at Fidelity headquarters. And no, I have not had a royal sighting yet this morning.

ALLY: All right, we know retirement income is a big subject. The phrase alone can mean different things to different people. A lot of us have vague or kind of aspirational thoughts about retirement, maybe a picture of a beach or making travel plans. How do you define retirement income, and how do you help clients translate those into specifics, Tim?

TIM: Yeah, that's a great question. So that's different for every single person that I meet with. And retirement is personal. It can be stressful. We haven't done it before. However, it's very important.

So the question that I typically ask clients is let's just fast forward here. Let's fast forward maybe 10, 20 years. You've had a nice, long retirement. What are those moments, what are those things that you can look back on and say, wow, I nailed it, it was a success? What were they? Were they events? Were they family moments? Was it a large vacation? Was it a charitable gift? What were those things that you nailed it? And then let's put a plan together so we can do just that. Because if we haven't done that vision, we don't know what's most important to you, how you want to get there, and the risks involved.

ALLY: OK. So we've gone on our vision quest, we have some clarity around it, and now you need to develop a plan. So Jessica, what are some key action items for creating a solid retirement income plan?

JESSICA: So I would say just defining some of these expenses even further. It's definitely worth your time and attention to create a very detailed budget. And that budget should really outline what are the essential bills that we have every single month that we can't not pay, as well as your non-negotiable items. What are the reasons that we're retiring for? What do we want to make sure we're able to do?

And then also discretionary. There's still going to be a lot of room in your budget for discretionary items that maybe aren't a requirement for your lifestyle, but you sure would like to be able to do them. So spending that time on a budget is really important. And I do encourage clients to avoid just estimating expenses because the more detailed that you can be with this budget, the more confident you're going to be in your retirement plan because you'll know you have planned for it enough. And be generous with that budget, too.

Once we've gathered all that data, it's just important to understand what are some of the beliefs that you have and that Fidelity has to help support and guide you through retirement. And one of our biggest beliefs is that you should have a reliable regular income source to cover all of those essential and non-negotiable items. And so partnering that up with your own personal beliefs is really important so that you feel very confident in those steps that we've put together.

ALLY: Terrific. Jerry, what would you add to that?

JERRY: I challenge you to ask yourself, when was the last time you spent five hours researching how to build an income strategy for your retirement years? If you really want to realize that vision of that life in retirement that Tim talked about, I think it's worth dedicating some of your time and attention in planning for income, specifically, in retirement, more time, perhaps, than you spend planning your next vacation. You need to make it a priority. You're obviously doing some of that right now by tuning into this webinar.

Maybe you could set aside a couple of weekends this winter to sit down and get into the details around expenses that Jessica was talking about. There's an amazing amount of information out there. Grab a pad of paper to take notes and try googling things like how much income will I need in retirement or what does Medicare pay for and not pay for or when do I need to start my RMDs. There's a wealth of very useful information out there. And think about how much you might learn in five hours' time doing that kind of research.

ALLY: Yeah, those are great points. You know, Tim, Jessica mentioned expenses. And obviously, you don't want to just kind of guess and throw anything at the wall, but how do we start estimating what we think we'll need?

TIM: Yeah, retirement can be expensive. I mean, if you think about retirement, every day is a Saturday. Every night is a Friday night. Every day and every night is a chance to go out and do fun things you've been hoping and dreaming for, and some of those things cost money. So what we really have to identify—I think Jessica hit on this, as well as Jerry—is we've got to identify what kind of a lifestyle you want, what kind of lifestyle you want and what it might cost. And then we can back into that and figure out which part of this lifestyle is essential and which is non-negotiable, right—I have to do this, I want to do this—and then, as Jessica mentioned, what's discretionary.

So let me just put that into perspective real quick. So my father-in-law, he passed last year, but his retirement was based on fun, beaches, and golf. And for him, golf was essential. And it wasn't go play golf and go home. It was go out to breakfast with his buddies, have some drinks—that's OK—then they would play golf, they would have some more drinks and talk about golf. This went on for, like, three or four days a week, Ally.

And for him, that was his passion. And so think about your passion. Is it golf? Is it a mission-based service trip? Is it travel? Is it grandkids? I put in wine budgets, gambling budgets. But what's most important to you, how do you want to get there, and then what happens if we don't? What happens if we don't? So put a plan together. We want to talk about expenses and think about what are your non-negotiables. And to this example, what is your golf?

ALLY: Jerry, what is your golf.

JERRY: There are a lot of rules of thumb out there. One popular rule of thumb is to plan to replace 80%, 85% of your income in retirement, that paycheck that you're trying to create for yourself in retirement. While rules of thumb are super helpful, I think you really need to dig deep into your own likely specific retirement expenses, to Jessica's point, to truly understand how much you might need.

Remember, there's a lot of expenses that actually go away when you retire, but there are some new ones that will emerge. While I think that—and Jessica shared this—breaking expenses down to essential and discretionary expenses is a really useful approach, another strategy that I like a

lot, especially if you're not retired yet or you're newly retired, is try to think about your expenses and income needs in four categories or four buckets. And I think these four categories are worth writing down.

The first is the here and now expenses. These are expenses you're incurring right now that you expect to carry into retirement. Think of things like utilities and car insurance. The second bucket or category are the expenses that go away, current expenses that are going to stop or slow down dramatically once you retire.

Think about things like frequency of buying a new car or work clothes or commuting costs. And then the third category is those new retirement expenses that are going to emerge because you are retiring. Maybe it's your golf. Maybe it's your drinks before and after golf. It could be pickleball dues—the number one fastest growing sport in America today. It could be more travel. It could be more family gatherings.

And then that fourth bucket, which is often the toughest category to estimate, it's those unexpected or unanticipated expenses that might arise during retirement, like a decision to sell your house to move closer to your kids, health-related events, or even long-term care. Sitting down, taking the time, writing these expenses down, maybe even creating an expense spreadsheet and thinking through them, and this way, I think, is a good way to develop a view around where you're at today and what you might need to do in order to support that vision of retirement by the time you actually get there.

ALLY: Jessica, help us out with some tools.

JESSICA: Absolutely. So it is hard just to sit down and think, OK, let me grab a pen and paper and just write out my budget and try to figure out what are we spending every month. I could probably do it, but not do it very well. So I do rely on a lot of tools to help support us. And Fidelity does provide a lot of calculators online, along with budget worksheets that you can create a very detailed list of your expenses.

And I think it's helpful, as well, just to make sure there's nothing you missed. Like the pet grooming would definitely be something that I would miss. I wouldn't think of it as often. So listing those out, taking the time helps. And I do have many families that come to me prepared with their Quicken and their Excel spreadsheets or whatever platform they've used in the past. The more detailed you can be, the better off we're all going to be, and the more prepared you're going to feel.

ALLY: That's great. Tim, some of us may have a 20-, 30-year or more retirement. So what I might think of what I need at the beginning may not necessarily be what I need toward the end of—as I age. So how should people think about addressing expenses as they shift over time?

TIM: Yeah, that's a good way to think about it. Another way to think about it is even though the things I'm going to spend the money on might be different, the actual costs might be the same as I age, or might even be a little bit more. So in retirement, we basically think of it as three different phases.

And it's the go-go years, the slow go years, and just so I can always remember it, the no go years, or the slowed down years. And basically, all that means is the first part of your retirement, Ally, those are the go-go years. You're going to travel. You're going to buy a vacation home. You're going to visit family and friends. You're going to have a really good time because you've earned it. You planned for it. Let's enjoy it.

Slow go years, maybe we won't go on three or four cruises. Maybe once. Maybe we won't see the grandkids multiple times a year. Maybe once to two. We're going to slow down a little bit. And at the end of our retirement there, we may be thinking about, as Jerry talked about, long-term care. We may have some folks come visiting us or expenses might shift. We want to make sure that we plan for each phase so we can do what we need to do and we're not worried about where the money is coming from to support that lifestyle.

ALLY: Yeah, you talk about health care expenses. So Jerry, I want to ask you, when we think about health care in retirement, I might optimistically think one thing, but then I look to my mother, who is suffering with dementia. I mean, how do we get a handle on how to estimate health care expenses?

JERRY: That's a good question. I mean, health care costs are a material cost to us during our working lives. And sometimes we don't feel it because, for people that work for companies, it comes out of your paycheck. You really don't feel the pain it's truly putting on your real income. But they can become even greater as we grow older and transition to retirement. And that includes the portion that comes directly out of your retirement savings. Long-term care could be another material health care–related cost as we grow older.

And it's not just about costs related to being confined to a facility, which is a huge misconception of a lot of people. Many people believe that both these costs, health care costs broadly and long-term care, are going to be fully covered by Medicare. Contrary to that belief, according to Fidelity's own research, an average retired couple, both aged 65 in 2021, may need approximately $315,000 in savings after tax to cover uncovered health care expenses during retirement. And according to a U.S. Department of Health and Human Services study, 70% of Americans should expect a long-term care event during their lifetime.

ALLY: OK. So Tim, again, if we're looking to personalize an estimate, how do we do that with health care costs?

TIM: Yeah, it's difficult. And again, health care may be one of your biggest expenses. It's unpredictable. It can be uncontrollable. But we at least want to try to plan and then protect you against some of those events. So in one of our planning tools—and Jessica mentioned this—our Planning and Guidance center, we have a budgetary worksheet. And in that budgetary worksheet, you can click an Estimate button. It's the national average for health care estimates. And they'll go over some pretty detailed things for you.

It'll talk about COBRA. If I were to leave my job and do something else, it'll talk about what would be the max out-of-pocket expense for some health insurance. And then what would it cost when I take on Medicare, and what would a supplement to Medicare cost, and things such as dental and vision and prescription? And all those things that we know those costs are there and we know they're going to impact us, but we don't know how and we don't know what those numbers might be.

So I would encourage everyone, if you haven't done this with your planner, you can go into our website, click that Estimate button. And then we can personalize it for you. A great thing about the tool is maybe, as you're in retirement, oh, I know what my expenses actually are. I don't need the estimate. I can use real life, as my kids say. But it's a good place to start. And if we don't do that, then we've missed out on a huge risk to the plan. And we even inflate those health care numbers a little bit higher than we do everything else in our budget worksheet because that is reality there.

ALLY: Yeah, yeah, that's great. You know, I want to point out to folks watching at home, or wherever you're watching, we're going to have links to all the tools that we talk about and the things that you see on screen at the end of the show. So don't worry, you don't have to feverishly take down any websites. So, you know, I'd love, Jessica, to turn to you. And we've got a sense of what costs need to be covered, but then we've got what we're looking at for our retirement income. How do you allocate your resources to fit those different types of expenses?

JESSICA: It can be a little daunting, honestly. But the way that we try to approach this is every single dollar that you've worked so hard to save over your lifetime should really have a role in your retirement plan. So every asset really needs a job. And we try to allocate funds to help protect you, as well. So we want a really good amount still in just emergency funds, because even in retirement, emergencies happen, and we are going to need some cash on hand just to cover those things.

You also need some funds that are protected. And protected from whether it's being able to protect your income stream or being able to protect your assets from the markets, we do want some protection in the plan, which then gives us permission to go out and actually take on some of the risk in the markets to outpace inflation. And inflation and health care costs, to me, are the two biggest factors that we discuss with families all the time.

It is very hard to judge what that's going to look like for you, especially when we mentioned a 20-, 30-year retirement. And you haven't done this before. And hopefully you won't do it a second time, that this is just a one-time event for you that we retire. So often, I do encourage families to look to their family members, their parents, their grandparents, their friends. What have they observed from others in retirement, and how should we be structuring or tailoring their plan and their investments to do what they need?

ALLY: OK, so let's dig into health care specifically. Jerry, what about strategies—we've figured out what we need to cover, but how to manage those costs?

JERRY: [INAUDIBLE] can begin their education by learning what is and what's not covered by Medicare. And then the next step is to investigate ways to close any gaps in coverage that you might be uncomfortable with. As much as 20% of your health care costs could fall directly on you and dig directly into your retirement savings, even if you're covered under Medicare.

And chances are not all your prescription drugs, the ones you're taking today or the ones you might be taking when you retire, are going to be covered. If you're female, there's probably a good chance that your costs could be higher than you anticipate, as female mortality continues to extend three to four years beyond that of males. The good news is that there's supplemental Medigap coverage out there. There are drug plans available to close the gaps on prescription drugs that you may not be covered on.

ALLY: So I want to circle back to something you said a little bit ago about long-term care. Is it covered by Medicare? I mean, that's an enormous cost for families.

JERRY: Yeah, no, it's not completely covered by Medicare. And like other health-related costs, not 100% of those costs are going to be covered. And I think I shared earlier there's a little bit of myth out there that long-term care equals confinement to a facility. Long-term care is really about enabling you to continue to live the life that you're living, and it involves a whole bunch of other potential costs you could be facing.

And when it comes to long-term care, there's many people, especially when they're young, that think it's limited to costs related to being confined to a facility, it's not something that's going to happen to me, or they believe it's something that's too expensive and it's something they can't afford. Another big challenge is that many individuals start thinking about long-term care way too late in their journey. It's really something that we should be thinking about when we're younger, in our 50s, maybe even our late 40s, versus our 70s or 80s.

And as I shared earlier, 70% of us can expect to experience a long-term care event in our lifetime. Good news on the protection front is the protection solutions that are out there have come a long way. There's much more flexibility around the way you could pay for long-term care coverage,

or the amount or type of coverage that you're willing to acquire. Understanding these costs and how they might impact you and your savings are all things we can help you work through. As you've heard, I think, from all the panelists today, we have a ton of tools and support to help you understand how these issues could impact your situation.

Jessica talked about sitting down with paper and pen and a worksheet and forcing yourself to look into these expenses. It is hard, for sure, and it can be painful, but it's really enlightening, especially if you go through that process and you start to discover those things maybe you were taking for granted, costs like doggy day care or that one subscription to that one channel to watch that one show, or costs like dry clean or commuting. And those are good check the boxes because those are costs that you know are going to go down dramatically, or maybe go away completely. But I think going through that process and trying to incorporate the potential exposure to costs like health care and long-term care is a healthy but long, sometimes painful experience for sure.

ALLY: Yeah, Jerry, I want to circle back. You alluded, saying that long-term care is not always just being confined to a facility. What else should we be thinking about when we think about long-term care?

JERRY: It could be devices in your house to enable you to get up the stairs, to get in the front door. It's really about the things that happen to you in your life, either because of the condition or just the normal wear and tear of your body, that are getting in the way of you living that normal life. So a lot of long-term care costs have to do with costs that are incurred in your home, and not in a facility. And a lot of people, in their mind, they immediately think I'm going to get put in a home someday. And that's not going to happen. But a lot of the costs that are incurred, which keep going up every year, are actually occurring in your own home.

ALLY: Yeah. I do also want to point out again, remind people that we'll have links to all the tools that the panelists are talking about throughout the show. Tim, what would you add to that conversation?

TIM: Yeah, so what we're talking about is really important, and it can be something that we choose not to talk about. There's lots of things in our lives with our family members and friends we choose not to talk about. But this is one that we have to. And again, as Jerry talked about, long-term care, it can be that wheelchair ramp. It can be the grab bars in the shower. It can be something like that, because most of our clients, most of all of us, we want to age at home. We want to age with our family and our friends around us. We just need a little bit of help.

But the other thing about long-term care, there's two quick points here, Ally. If we don't insure for this event, I mean, there's all kinds of catastrophic things that we protect ourselves against—car insurance, fire insurance on a house, all these things—and if we don't have this conversation, we're

basically choosing to not protect our plan against some unforeseen, really bad event that could happen and hurt us and our family. So the other point is long-term care really can be a gift to the people that's going to be taking care of you.

And what I mean by that is we're going to have family and friends that are going to take care of us. We want them to be able to take time off from work or do things like that, but long-term care can help so they don't have to take time off from work. Long-term care can be someone coming in to help. Long-term care can be, you know what, I'm going to go out and I'm just going to play a round of golf because I need a break. So long-term care can do lots of things, and it really is a gift to the people that are going to be taking care of us.

ALLY: Yeah. Jessica, I know you've got perspective here.

JESSICA: Definitely. I mean, this is not a conversation you want to put off. Ideally, we don't want to have conversations about health care costs when we have bills coming in or when we're sick or when we no longer have mental capacity. These are conversations you should be having now with your spouse, with your children, with the people that you love so that they not only understand we're going to set some funding aside for it, in some way, but also they understand what matters most to you.

How do you want to be cared for? Who do you want to care for you? Not everyone may be opposed to leaving the house. They may say, you know what, send me to the memory care facility, just as long as I'm smiling and happy and have a garden. I'm good. But if you don't talk about these things, your family doesn't know, and they can't help support the wishes that you have in place. So beyond just the financial aspect, it's bringing that family together to help support you and having the conversations when they're much easier to have, while you're still healthy.

ALLY: Yeah, I have to say, I've been having conversations with my mom, and I thought it was going to be so hard. I thought it would be a tough interaction. And she really appreciated it, and I would say we're closer than we've ever been. So thank you for those thoughts.

OK, let's move to the currency of the economy. We have inflation that is the highest it's been in decades. Tim, help us understand how to manage for inflation as we age.

TIM: Yeah, inflation is happening to all of us, right? You mentioned it's highest in decades. What is it, Jerry, now 8% or so, or something like that? So going back—I think Jessica mentioned this—we want to assign roles and responsibilities to your money. We want to give them jobs.

And if we do that, not only do we have some clarity in how we're going to utilize those assets, we also have some clarity in what we're going to be able to protect against. So inflation, the true

hedge for inflation can be the job of the growth money, emergency protection and growth. It's that growth money. The natural hedge, historically, over time has been stocks. However, of course, with those stocks comes risks and volatility.

So what we have to try to identify is how much volatility can you handle in that growth side, keeping up with inflation, higher expenses, legacy goals. How much volatility is going to make you feel OK? And we want to anchor that with maybe guaranteed income, anchor that with protection.

Another way to have a hedge against inflation is there are some income annuities that have a hedge against inflation, and they can go up over time. So it's basically how much of your assets do you want to expose to the market and how much of that exposure is going to impact your lifestyle, impact your ability to do the things you want to do.

ALLY: Yeah. Jessica, what conversations are you having with clients right now about inflation?

JESSICA: Well, we are all very tired of our grocery bills and electric bills, so that's like a consistent theme, and we're not very happy with the market this year. It's been a very difficult year. I would say when we're going through times of market turbulence, it is the ideal time for you to do a check on what your risk tolerance really is. It's easy to say you're tolerant of risk when the markets are growing at a good pace, but when the markets decline, it's a much better gauge of how do you really feel.

And it's important to be honest with yourself about that risk because we want to be able to assign assets to take on some risk for inflation, but no more than what you can really stand. Otherwise, we're not going to help you live a very comfortable retirement when you're worried about the market all the time. So trying to make sure that those jobs are assigned for the right reasons to your investments and that your income is structured in a way that gives you a lot of comfort so you know what is being paid and where it's being paid from, you know how you're going to be able to make up for unexpected higher inflation or a one-time emergency or a year of longer expenses. So having that flexibility, along with some protection, gives you the permission to take risks so that we can try to grow and make it a little easier on your portfolio.

ALLY: Yeah. And I don't think we can talk about inflation without, Jerry, bringing you back into the conversation for inflation in health care. I mean, health care costs for the last few decades have risen at a pace even higher than the general rate of inflation. So you know, and you mentioned women. Women live longer, often, than men, and they'll have higher health care costs. So how do we think of that?

JERRY: Jessica, you mentioned groceries. I'm also a lover of bacon. And I'm not sure how much more expensive bacon can get. But there is this immediate sea of inflation we're feeling right now

across the board, but when it comes to health care costs, it doesn't feel to me like—it feels to me like we may see the end of the tunnel on the inflation we're feeling, maybe even on bacon prices, but it doesn't feel like we're going to feel that break when it comes to health care costs.

And I challenge you to ask yourself that same question as you're doing your own planning. The sheer volume of people that are pouring into retirement is going to continue. And as you can imagine, we incur some of our highest health care costs in our older years, which will drive the costs across the system.

Medical science will continue to advance. That costs money. And we will likely to live longer, which also puts more cost in the system. So I think all signals are pointing to health care costs that will continue to rise. Bringing greater efficiency to the delivery of health care, the use of technology, maybe even regulation may temper costs, but I think you've got to assume that these costs are going to keep rising and have a bigger and bigger impact on your plan.

And how you address them, you've got two ways to address them. You build them into your savings and income plan—the $315,000 might be the rule of thumb you use that I talked about before on an after-tax basis—or you seek protection solutions that can close some of those gaps in your health care coverage, like Medigap, like the drug plans that are out there, or even long-term care insurance. And to your point, Ally, I shared earlier, if you're female, there's a good chance that you're going to live longer than males and will likely incur greater health care costs.

And according to one study by HealthView Services, that could be as much as $200,000 more than your male counterparts. So these are material and significant. You've got to plan for them. And the good news is there are protection solutions out there if you want to close those gaps before you get there, to Jessica's point, before the bills start coming in.

ALLY: Wow. That is a significant number, yeah. So Tim, many of us, probably most of us will get some of our retirement income from our savings, or the bulk of it, often from retirement accounts. So what are some of the ways people can generate income from the assets they have?

TIM: Yeah, that's the question everybody asks, right? On everybody's mind is strategies. So when we do planning with folks here at Fidelity, we want to incorporate three tenets to a plan, and then we can talk about the strategy. You need to have growth, guarantees, and flexibility. You've got to have growth to keep up with inflation that we just talked about. You've got to have some guarantees in your plan.

As Jerry and Jessica mentioned, you want to be able to pay your non-negotiables, the health care, the travel, the things like that with some guarantees. And you've got to have flexibility. You're going to be retired for, hopefully, a nice, long time. Your life is going to change. Your situation is going to change. Your plan has to be able to change and be flexible. So we want to have those three things—growth, guarantees, and flexibility.

And then when you think about the strategies, there's basically three income strategies. And let me tell you what those are, and then we'll do a little deep dive real quick here. So the three strategies are just, as you mentioned, withdrawal from your assets. You're just taking withdrawal from your accounts for a period of time. There's a dividend and interest strategy, and then there's the hybrid strategy, where we bolt on basically additional income.

So real quick on that withdrawal from assets. There are some pros and cons to that. One thing you have to keep in mind is you have to have a disciplined, disciplined investment process. And it's got to be something that not only are you comfortable with now, but you're comfortable with in times of volatility. And ideally, you have a partner in that management of those assets. One risk to that strategy is in times of volatility, when the market goes down at some point, you might have to withdraw less. You might have to withdraw less from your assets. And all that means is you might have to maybe cut some of those things that are most important to you.

The second one is dividend and interest. Dividend and interest is pretty hard to predict. I can't tell you what dividends are going to be in a couple of years. I can't tell you what interest rates are going to be. It's hard to model it. It's really difficult, and it takes the most amount of money. And a risk there is diversification in the assets.

Third strategy is what most of our clients land on, is the hybrid. Basically, what we do is we had that withdrawal from assets, that first strategy, and then we bolt on additional guaranteed lifetime income to what Jessica was talking about so that you can do the things that are most important to you and have that volatility impact you less and less as you're living your life. And most of our clients say that's what I want.

I don't want to have to worry about where the income is coming from for the most important things. I want that income non-correlated. I want that income non-correlated to the market, to the stuff on TV, to the politics. I want to be able to live my life. So those are the three basic strategies. And then as part of planning, what's most important to you? Let's personalize it. Let's figure out what you want to do, how you want to get there, and which strategies is something that you're most interested in.

ALLY: Yeah. You talk about strategies, but how do we figure out which accounts to tap for which expenses? I mean, is there some sort of stack ranking you do?

TIM: Yeah, there is stack ranking. We use a term, it's called the hierarchy of withdrawals. So basically, before you're aged 72—we'll talk about required minimum distributions here in a few minutes probably, I know it's on everyone's mind—you want to do taxable first, take out of your taxable accounts first because you have the least taxable impact there. Second, we want to use tax-deferred assets because that will be taxed at the higher income rate. And the last asset we typically pull from is tax-free, known as that Roth account. We want to hopefully say that it's a great account to pass on for legacy, for example.

But one thing to keep in mind, in terms of this hierarchy of withdrawal. That's a general approach. We've got to personalize it. So for example, let's say someone is approaching their required minimum distributions. And just remember, when you're 72 years old—I know Jessica is an expert on this—you're required to take a withdrawal from your accounts.

Whether you want to or not, you have to take that out. You haven't been taxed on it, and you can choose what you want to do with it. So before you're 72, maybe you're approaching age 72, we'll take money out of that taxable account, and then perhaps take some money out of those tax-deferred accounts, just enough so you're not bumped into a higher tax bracket to reduce some pressure on those RMDs, those required minimum distributions, down the road.

The other part of that strategy, again, is guarantees. So when you want to think about a guaranteed approach, what assets do I want to use to guarantee the income and what do I want that income to support? So there's a hierarchy of withdrawals in terms of the assets, and then there's also how much do I want to guarantee for those non-negotiables.

ALLY: All right, Jessica, Tim called you out as the expert. Let's bring that expertise to bear. So what do people need to know about tapping those accounts? And Tim referenced that it's mandatory to take some of the money out of those accounts at a certain age.

JESSICA: Yeah, correct. So basically, at age 72, the year in which you turn 72, the IRS does require that you start taking withdrawals from all of your qualified retirement accounts. And what I mean by that is any 401(k) plan from a former employer, 403(b) if you're nonprofit, IRA accounts. All pre-tax retirement funds, you do have to start taking a withdrawal at 72. And that is calculated using a uniform life expectancy table from the IRS. What you do is you take the prior year's year-end balance, and you divide it by your factor for your age.

And what that means is right now, if you were to turn 72 this year, they are taking their year-end balance from last year and dividing it by 27.4. Now, make sure you check the up-to-date rules every year for the current amounts, or if you're a Fidelity customer, it is something that we provide for you online with your retirement accounts. We show you exactly what your required amount is and how it is calculated by account. And then you have to take it out by December 31.

Now, there are some things to consider that first year. You have the ability to push it out to the following April 1. But I always warn clients, the big but, next year, when you take it by April 1, you still have another required distribution to take in that calendar year. So you may double up your taxable income by doing that. Make sure to partner with your planning professionals to help you decide the order of when you should take these things.

A lot of clients are very concerned about required distributions. I think the biggest piece is just understanding what it is, what does it mean to you, how is it going to impact your taxes and your lifestyle, and is it something that you're going to need at that time, because whether you need it

or not, IRS requires you to take it out and pay taxes on it. Now, of course, you can reinvest those funds if you're not using them. And we'll talk about some other strategies here in a minute, too, on other things you can do.

But if you don't take it, then the IRS is going to take half of what you were supposed to take via penalty. So I would rather pay taxes on those funds myself than give anybody else half of it that I didn't have to give up. So we always try to set reminders and set up different tools and systems to keep us up to date.

ALLY: Yeah, I think that's a word to the wise. So we are getting a lot of questions about RMDs, so I'm going to ask each of you to weigh in specifically on them. And Jessica, I'll start with you, if you want to expand on anything you've already said.

JESSICA: Yeah, absolutely. I would say it's important and I always encourage families to work with a tax professional. I like partnering with my clients' professionals, kind of their board of directors, to help manage their financial and legal and tax aspects because it can help us look ahead and decide how do we need to handle this.

One of the big things that I get questions about now is the IRMAA penalties. So you can be penalized by having too much taxable income in a year, and it could cost you more on your health care premiums. So it's all of these little rules that you need to know. And if you have a good group of professionals partnering with you, they're going to help remind you and keep you on top of it.

If you don't need the funds, of course, there are several different things that you can do, such as the IRS allows you to do a qualified charitable distribution. Now, what that means is if you are philanthropic or if you normally give to any cause, the IRS does allow you to give a portion of your retirement accounts that counts towards what you were supposed to take for the required distribution. However, it is not taxable because it's given directly to the organization and you don't have to itemize. So there are a lot of tools like that that you can use along the way, depending on your personal circumstances, where we can help you come up with some great strategies on how to plan for this, what do we do.

ALLY: Tim, Jerry, feel free to jump in. I know you get a lot of questions on these, too.

JERRY: I guess what I would chime in on is I think this is one of those moments where working with a professional pays off. It's complicated, right? I mean, this is something you have to do. You've got to take the right amount, and the tax consequences of not taking the right amount is significant and substantial. And there are some strategies—Jessica talked about one of them around charitable giving—that are a really interesting and powerful way to leverage these dollars.

And then last but not least, I think it's important to note you don't have to spend the money. You've got to take it out, but you don't have to spend it. So it's not like you're losing the money. You're

being impacted on taxes that you've been able to defer throughout your lifetime, and that's why these rules exist. But this would be one of those examples where sitting down with somebody to really plan out when, how much, where are we going to get it, and then what do we do with it I think pays off.

ALLY: Tim, anything to add?

TIM: Yeah, I would just maybe pile on here. It's something that we have to do, we may not want to do. But we don't want to—the penalty outweighs anything else. And there's a strategy component, as well. You can delay a portion of your required minimum distribution.

You can delay that up to age 85 using a qualified longevity annuity contract. But that's part of your planning with your tax person. That's part of your planning with your Fidelity person. Does it make sense? Is it helpful? But there is some strategy component to taking that required minimum distribution, as well, by maybe even pushing off a portion up until that age 85.

JESSICA: Tim makes a good point. And when we look to, when we start this retirement planning earlier, so if we're getting ahead of someone before they retire, we can project out approximately what would we expect in required distributions. Is it above our expenses? Does it push us into a higher tax bracket?

Because there are other things we can do, such as Roth conversions, throughout the years, or maybe leveling out income and taking more IRA income earlier on in retirement so that it's not a big burden later. So I'd just say, like anything else that we do, if we can get in front of it, do some really good planning, have a great discussion around what matters to you and how it's going to impact you, then we can plan for it, and it's not an issue anymore.

TIM: Hey, Ally, I think the word that I want to just inject real quick is proactive. So if we can be proactive—this is what Jessica was talking about—proactive in our approach to our required minimum distribution, proactive in our approach to health care, proactive in our approach to planning, we all just make better decisions versus being reactive. And that's really the word that I just want to interject into the conversation today, is being proactive in all these things.

ALLY: Yeah, yeah, it's tough to wait until things just crash around you. But I want to talk about something that isn't necessarily an expense but is a part of planning for retirement assets, and it's important to people—leaving a legacy. Tim, how do you account for clients' legacy goals as they're making their income plan?

TIM: Yeah, so legacy is obviously a very important part of retirement planning. It's a very important part of what makes us who we are. But the thing that we need to remember is legacy means different things to different people. And so what I really try to understand is what does legacy

mean to you. And let's talk about that. And legacy can mean to you I want to leave a certain amount of money when I pass to my family, charity, whatever that is.

More and more clients that I meet with, Ally, more and more clients tell me, Tim, legacy is something that I want to enjoy when I'm living. And what they mean by that, maybe legacy is that family vacation home. Maybe legacy is that really cool trip to, you know, insert the goal, the dream destination. Maybe legacy is helping a family member with college or a first home, or whatever it can be. And more and more people are saying I want to create memories and I want to have legacy events, versus that traditional kind of pile of money at the end, as I like to say.

So first thing is what does legacy mean to you. How important is it to you, and what's the best way that we should talk about ensuring that you can do that? Should we call that an essential expense? Should we call that something else? Should we try to guarantee that? But most importantly, what does it mean to you, how urgent is it for you, and how can we plan for it?

ALLY: Yeah, Jessica, what would you add here?

JESSICA: Yeah, I think that was very well said, Tim. If I think about myself and some goals I would have is hopefully, knock on wood, they all have grandchildren. And it would be so meaningful for me to see them graduate college and to know that maybe I helped play a part and helped funded their college.

Those things I would like to experience during my lifetime, and I see that a lot with other families, too, is it's about the experiences that we share, the memories we create, the lessons that we have to teach. That's what's meaningful. And so certainly there's a financial aspect to it. And we can absolutely put the numbers to the plan and really make sure you can do this. But stepping back and understanding what is it that you're really wanting to accomplish, where do you find this super meaningful, that's how we can make sure that we're planning for it appropriately.

ALLY: Jerry, you talk a lot about balance. Expand on that.

JERRY: It's interesting, somebody who has been working with clients in retirement planning for many years recently said to me, once clients establish income plans that they have confidence in, it makes them better investors and it helps them better address this legacy issue. On the better investor point, you know, Tim spoke to it earlier. Imagine—and maybe some of you do, but if you had a plan, an income plan in retirement that was non-correlated to markets, right now, today, in this environment we're living in, you'd probably feel a sense of peace of mind that would be pretty powerful and pretty important to you.

And it's possible to get there. But when people do the planning, put that income plan in place, it's much easier to ride through a market like this, and it's much easier to think about this legacy issue because once you have a solid income plan, it puts you in the mode of thinking about your money

almost as if you have two buckets of money. There's your income bucket. That's what you're living your life in retirement on.

And then there's this bucket of money that you might use for non-discretionary expenditures—think that cruise or that safari—or to benefit others. Think your family and the charities and organizations that you care about. I think having a good income plan enables you to strike that balance in your planning and to impact people that you want to impact, and in some cases while you're still alive.

You know, I absolutely agree with Tim that you need to be thinking hard about the timing of any legacy you want to live. Do you want that benefit to be received after you're gone, or do you want to see that impact during your lifetime? As Tim's suggested many times in the past, do you want to use your money today to pay for your grandkids' college now?

Do you want to rent that beach house in the Carolinas and throw a huge family reunion now? You set up a scholarship at your alma mater and actually meet the young people you're impacting, or do you wait until you're gone to leave your legacy? But I think if you have an income plan in place, you get to that stage where you have your income bucket and you have the rest of your money that you're investing and saving. It makes it a lot easier to time the legacy you leave differently, and maybe see the fruits of all that labor while you're still living.

ALLY: Yeah, yeah. You know what, I was going to ask you for final thoughts as we leave, but I think we do need to wrap up. So we'll get you on the horn next time. But I want to thank you all so much. This has just been a great conversation. Jessica, Tim, Jerry, thank you so much.

JESSICA: Thank you.

TIM: Thank you. Appreciate it.

JERRY: Thanks.

ALLY: This was a great discussion. If you're interested in learning more about retirement income, tune in for our January panel on retirement income taxes and watch a replay of our November show on generating income. And we know that there are lots of links and resources to the tools we mentioned during the show, so there will be links there, additional retirement planning resources you may find helpful. You can also download today's presentation using the button on the bottom right-hand side of your screen.

And to learn more about other financial planning topics, subscribe to Insights from Fidelity Wealth Management, or for exclusive invitations to future Wealth Management webinars. And you can also access our weekly newsletter for the news and content from top Fidelity thought leaders. I'm Ally Donnelly. Thank you so much for being here. We hope we see you soon.

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$200,000 more in health care costs than male counterparts claim, Source: HealthView Services, "Addressing the Women's Longevity Gap."

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