Your retirement transition: Go from saving to spending

TRANSCRIPT

SPEAKERS:

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SEGMENT 1: Retirement income basics

Jim Armstrong: Hello, and welcome to Fidelity's webcast series, "Your retirement transition: Go from saving to spending." This segment of our webcast series will cover retirement income basics.

I'm Jim Armstrong, from Fidelity's Learning Team, and I'll be your host today. With me are two dynamic women who have decades of retirement income planning experience between them.

Now many of you might know Marcia Mantell from other webcasts on Social Security and Medicare. She's a proud baby boomer living in New England, and she's been in the retirement industry for nearly 30 years. In addition to writing retirement books and blogs, Marcia thinks about her own upcoming retirement just about every day of her life. Hey, Marcia.

Marcia Mantell: Hi, Jim. I'm delighted to be joining you today.

JIM: We're super happy to have you here; thanks for being with us. We're also very fortunate to have Sarah Jo Brockhouse joining us as well today. She hails from Houston, Texas, where she meets with Fidelity's customers just about every day of her life as well. She holds a Certified Financial Planning designation, and the Chartered Retirement Planning Counselor certification. Sarah Jo helps individuals and couples create their retirement income plans. She also delivers educational workshops to clients covering a wide range of topics. So, Sarah Jo, we are thrilled to have you joining our webcast as well today.

Sarah Jo Brockhouse: Thanks, Jim. I'm so excited you invited me to participate.

JIM: Absolutely. So, before we jump into the details about creating retirement income plans, you'll notice, on the side of your screen, the list of segments themselves. You can choose any segment at any point and jump in and out of segments as you like. We think you might find it most helpful to watch the first five segments in order, but ultimately, the choice is up to you.

You're probably watching today with specific questions about your personal circumstances, and how to go about creating your retirement income plan.

Now while this webcast might not address your unique situation, it should provide a good foundation to help you get started.

In fact, one of the goals during this webcast is to let you know what to expect, and how to prepare to meet with a Fidelity representative to discuss your specific income plan for retirement. We'll also help you get started by sharing some questions that you could ask a Fidelity representative, and some topics you could talk about when planning for your retirement income.

Now here's what we hope you'll get from this webcast series:

> First, a good understanding of the key components for building your plan.
>
> Next, an overview of several financial and economic risk factors that affect almost everyone's retirement income plans, along with some ideas for how you can address them.
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> Next, an introduction to some of the common strategies for income and investing throughout your retirement,
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> And then, finally, examples and illustrations of how the inputs into a plan can impact the results.

Let's bring back Marcia and Sarah Jo to get started.

Creating a holistic or comprehensive retirement income plan can give you some insights into how you might pay for your retirement.

And we've heard from many people that they're feeling more uncertain and less confident about their retirement. Some might even be feeling anxious. So Marcia, let's start with this. People have been retiring literally for generations. They didn't necessarily have a plan. So, what's different now?

MARCIA: Well, you're so right Jim, they didn't oftentimes have much of a financial plan. You know, many folks in previous generations were comfortable living on their pensions and Social Security.

But for us baby boomers, you know, our retirement's gonna be different. Not only do we want to do a lot in this chapter, we're also facing more uncertainties, like the global health pandemic we're all in, and the possibility of retiring earlier than ideal, and even ongoing changes to retirement laws. So there's just a lot happening really fast right now, and it's just as we're getting to the point of retirement.

So what I find is that so many of us close to retirement are asking the same question: How am I going to make sure I've got enough money to stretch it all the way through retirement?

And the answer is to create a retirement income plan.

JIM: All right, good perspective, Marcia. Thank you for that. Sarah Jo, I know that this is what you and your colleagues do, right? You help Fidelity clients develop their own plans for retirement. So just at a high level, talk a little bit about that, if you could.

SARAH JO: You know, we love helping people create their retirement income plans, and it's so nice to get that feedback from them after we've worked together on their plans.

They have their financial information organized, their goals have become clear and focused, and they can see where the money will come from to pay for their retirement. It's really empowering.

JIM: Great, so let's get started now from the top. We've mentioned this phrase, "retirement income plan," several times already, but Marcia, let's clarify. What exactly is a retirement income plan?

MARCIA: Well, at the most basic level, a retirement income plan is a detailed report that shows you where and how your savings and resources are going to be spent throughout your retirement. You might think about it as a map; some people think about it as a blueprint; and it's all about how you will draw down your savings in a measured way.

And perhaps it's easier to think about what a retirement income plan is not. Now, it is not your savings plan for determining how much you need to save every month or every year, to achieve a particular amount for your nest egg.

A retirement income plan is also not an estate plan. Among other things, an estate plan is where you've specifically directed how your remaining money and your assets and your property will pass to your heirs after your death.

So this retirement income plan, it sits between these two ends. It can span some 30 years, more or less.

So think of your retirement income plan as a series of building blocks that all need to stack together in a particular sequence. Your plan will clearly show how your resources could be turned on and off to create cash flow. And the end result helps you see if you're going to have enough income to last for 30 years or so.

SARAH JO: You know, Marcia, it's interesting that you visualize retirement income planning as building blocks. I do as well, but I also think of it as a puzzle. You know, when I meet with a new client, it's like opening up a brand new 500-piece puzzle. We need to figure out first where the edges are, and then where all those other pieces fit.

So it starts with knowing what it is you've always pictured for your retirement. Even if your vision may be changing a bit due to current circumstances, you still want to know, What's the lifestyle you're looking forward to? You know, are there big trips planned? Or delayed? Will there be volunteer work in your community? You know, will you spend even more time with your grandkids? Those ideas help us to know what is most important to you, so we can make sure we're planning appropriately.

Then, we just work on fitting all the pieces of your financial puzzle together as we try to uncover three key pieces of information:

> First, we want to see what savings and assets you have set aside. Those are the buckets of money you'll be able to withdraw from.
>
> Second, we want to understand what sources you may have for steady, reliable income in retirement. And I think of those like faucets; they turn on and off to create cash flow for your lifetime.
>
> And then third, we match those buckets and faucets up to show you how your bills get paid every month.

Now, the most powerful thing about a retirement income plan is that it's written and visual, much like that 500-piece puzzle. You'll see if you have pieces missing, or if you might run out of money, and you're going to know when and from where you're getting that monthly income.

JIM: Okay, now that we've defined what a retirement income plan is, let's talk about several financial and economic risk factors that a retirement income plan should address, and they are: longevity, inflation, healthcare costs, asset allocation, and withdrawal rate.

Now it can be a challenge trying to address these risks over a long retirement, so Marcia and Sarah Jo, can you give our viewers just a brief explanation of each of those risks?

MARCIA: Sure, Jim. Let me say that Sarah Jo and I have talked a lot about these kinds of external risks. And we find it so interesting that lots of folks are aware of inflation and healthcare costs, but so many haven't yet factored in longevity, and it's longevity that's the game changer.

So when we talk about longevity, this is about the probability or the odds that you'll live beyond average life expectancy.

So if you are in good health when you reach age 65, well, you can see on this chart that you have a 25% chance of living well into your nineties. And if you're part of a couple, you have a strong chance of living to almost 100. That's longevity.

So when we talk about planning for income that needs to last throughout retirement, this is what we're talking about, it's how to stretch out your savings and resources to last some 25 or 30 years—or sometimes even longer, even though there's no guarantee you'll live that long.

SARAH JO: You know, I couldn't agree more. And longevity is why inflation is such a big deal.

Inflation is the long-term increase in the prices of goods and services, and day-to-day, we don't typically notice small price changes, since our salary generally increases to cover those changes while we're working.

But over a lengthy retirement, there can be large swings in prices. You'll see it in small items like gas and groceries, and then in big-ticket items like buying a new car.

Your retirement income plan needs to account for these kinds of price increases.

MARCIA: Yeah, and the other risk that's heavily influenced by inflation is the cost of healthcare.

Now, healthcare: It's expensive. On average, retirees today report that they're allocating about 15% of their retirement spending for healthcare costs, and many near-retirees end up postponing retirement so they can stay on their employer's health insurance.

So when you're planning your retirement budget, it's important to plan for healthcare costs to rise faster than general inflation.

And one last thing also to think about as you get closer to age 65: well, we'll all need to plan for the cost of Medicare. Between the various parts of Medicare and buying supplemental insurance, many retirees find that they need to budget somewhere between $200 and $500 per month per person for Medicare, and your costs could be even higher.

SARAH JO: You know, I want to add one more thing to Marcia's comment about the costs of health insurance. If you plan to retire before 65, or the circumstances around you are requiring you

to consider an early retirement, you'll have to figure out your options for health insurance before you can join Medicare.

And generally, there are four options for pre-65 health insurance: COBRA insurance, your state's health insurance exchange, a partner or spouse's plan, or private insurance. And all of those options are generally pretty expensive.

So, when you're building your retirement income plan, we can account for these kind of situations.

JIM: So, there are now two other financial risks to touch on: asset allocation and withdrawal rates. So Sarah Jo, can you talk about what we mean by asset allocation, and why it's an important part of a retirement income plan?

SARAH JO: Sure. Let's start by defining asset allocation. This is the mix of investments you have across various investment categories.

In general, you've been investing for growth potential during your accumulation years. When it's time to flip that switch from saving to spending, it's important to keep some assets geared for growth for the long term to help you beat inflation and longevity, and pay for the high costs for healthcare.

What we do is to help you understand and address the inevitable market risks so that you can make the best investment decisions for you. There isn't one single solution; it's about creating the right mix of products and investments to help build and maintain a properly diversified investment portfolio that may serve your unique retirement income needs.

MARCIA: And Sarah Jo, it's also from these retirement savings that you have to pull money out for income.

So, it may become important to carefully manage how much you take out from your accounts each year. And we talk about that in terms of a withdrawal rate risk.

Now, it's the percentage that's the key number to work with here, not just the dollars.

So across the industry, we've sort of come out to the starting point for withdrawals generally should be in about the 4%–5% range, you know, not 10% like many people think about.

So, to give you an example, if you have $500,000 in your personal savings at retirement, plan to start your withdrawals at maybe $20,000, or $25,000 per year. Then over time, you can increase the amount you pull out each year by the average inflation rate.

SARAH JO: You know, also remember, retirement is not a straight line. Some years, you may need more money, so a higher withdrawal rate. You would offset any higher spending years with lower withdrawals in other years.

I have a client who's planning for a few higher-spending years; I'll call him "Walter." He had been looking forward to a lot of travel in his early retirement, and first up on his bucket list was an Alaskan cruise. He wanted to be able to do every excursion, from whale watching, to dog sledding. So, for that year's spending plan, we accounted for several additional thousand dollars to spend on this once-in-a-lifetime trip. But in other years, no big travel plans, so a smaller spend on those items.

We also talked about the impacts on his retirement plans and bucket list timing during this pandemic.

There will be peaks and valleys in spending, along your retirement, in addition to the risks you'll face, and good planning can take that into consideration.

JIM: Let's change up the conversation now a bit to talk about the kinds of resources our viewers may have to consider when building their retirement income plans. Marcia, can you talk about some of them that you described them as building blocks.

MARCIA: Sure thing. What we're talking about here are the many different types of financial accounts you may have and might use when your paycheck stops and your retirement starts.

Now resources typically fall into several broad categories:

> One of them is that you may have money in tax-deferred accounts. This would be like your 401(k) and your 403(b) offered through your employer, and traditional IRAs.
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> You might also have assets in a Roth IRA or health savings account. Now both of those are tax-free accounts at the federal level.
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> A third category is taxable money, and you might tap some of your taxable money for income in retirement, like your bank savings account, CDs, rental property.
>
> And the last is lifetime income sources, and this is Social Security, pensions, and any fixed-income annuities you might have.

SARAH JO: You know, there's another really important source of income in retirement, especially for those that are considering early retirement, and that's work. Now I know, I know that doesn't sound like retirement, but many people I talk to are actually looking forward to finding some new kind of paid work to do once they step out of their long-time career jobs. You know, some people

will pursue a passion, or they'll develop an encore career. And many are just looking to try out retirement before going full time.

There are a lot of benefits to finding paid work in the early retirement years, not the least of which is that you can delay using your own savings for a few more years, and you may well be able to wait longer before claiming Social Security.

MARCIA: Plus, it gives you time to set up your retirement budget, and even pay down more of your debt. And you get to plan for all the bills and expenses you'll need to handle throughout retirement.

Those bills and expenses are another set of blocks in your retirement income plan, and you need to consider both the assets you have along with the expenses you'll need to pay.

Now, here's a starting point: Assume you will spend about the same amount in retirement as you do today. But if you're within a year or two of retirement, you might be better off with a more detailed budget.

SARAH JO: You know, those detailed budgets are really important, Marcia.

I call this part of the planning process kind of getting into the weeds of your retirement spending. There are just a lot of expenses that people forget about when they're moving into retirement. Now, some are going to be essentials, the must-haves; and others will be nonessential, or the nice-to-haves.

JIM: Hey, Sarah Jo, can I ask you to show us a few examples of what you mean when you say "getting into the weeds?"

SARAH JO: Sure. Let me show you how you can identify and plan for your expenses in Fidelity's Planning & Guidance Center. This is the online tool we use to help you create your own retirement income plan. Or, you can use it on your own, as well.

First, if you're several years away from retiring, you can simply estimate your monthly spending at a high level here. But as Marcia and I mentioned: the closer you are to retirement, the more detail, the better.

Let's look at housing, for example. Here we have a hypothetical couple: Mark and Carol. They plan to enter retirement with no mortgage, so at first glance, they might assume zero dollars in housing costs for their budget. But when discussing the details, they quickly understood that they needed to plan for homeowners insurance, regular upkeep, and property taxes. It was a bit of a surprise that they actually needed to budget almost a thousand dollars per month for housing, and these expenses are essential.

They also needed to include discretionary items that may not take place each year. Continuing in our example, let's say that Mark is planning to buy a new car every five years. He can enter a custom starting and ending date for such expenses, and since this is a nice-to-have goal, he could delay buying a new car if the market was in a downturn.

One last thing that I share with my clients: if you don't put in good numbers, you're not going to get a good plan.

JIM: Understood, for sure. We've got one more topic to cover in this segment, and that is this: now that you're getting your building blocks all set on the table, how do you organize them so that you can see where your income might come from?

MARCIA: Well, this is the step where you stack your spending blocks up on one side of a line, and all of your resource blocks on the other side. And then you want to start to match your expenses against your income sources.

So I think it often makes it easier to see this arranged in six different boxes. Now in box one, you'll have your essential expenses, and in box two, you put in your lifetime sources of income: so, Social Security, pensions, and fixed income annuities. For those income sources, the goal is to have them pay for essential expenses.

Now box three is the difference between the two. If you have a gap, that means your lifetime sources of income don't cover all of your essential expenses, and in that case, you'll need to use some of your own savings to pay for those essential expenses. That portion of your personal savings goes into box four to close any gap.

So last, boxes five and six: Here's where you'll put your nonessential discretionary fund spending, and any personal assets that remain can be used to pay for those items. Now you'll also think about keeping some of those assets invested for growth potential, and overall, you might look at creating some flexibility in your plan.

SARAH JO: You know, Marcia, this is a really important exercise for people to go through. My clients feel more confident when they see that all their hard work saving and investing really pays off. Or, if they have a gap, they're finding out early enough to make some adjustments. They're willing to make changes when they take the time to lay out their plan.

And that's why we're planning, and why we're doing it well before you retire.

You know, I have found that people often have these kind of "Aha!" moments in our planning meetings.

Maybe the first time around, they didn't put in all of their resources. They quickly see they need to be honest about everything they have. Or, maybe they thought they wouldn't have enough to retire, but after adding up the big and little accounts, they see how well prepared they actually are.

Stacking your building blocks and matching up expenses with income resources is key to your success. We don't skip on this step.

JIM: Got it, and on that note, we've come just about to the end of this segment, so thank you once again, Sarah Jo and Marcia.

For our viewers, before you leave, there are several to-dos that you might find helpful to get started on.

First, take an inventory of all of your building blocks. What are the resources you'll have, to create your income in retirement?

Next, set up an initial budget, and focus on those areas where you will be spending in retirement. Indicate which items are essential and which ones are nonessential.

Third, set up your own six boxes with your numbers. You can compare your initial expenses against your resources.

We also wanted to make sure you have some key questions that you can ask your Fidelity representative when you talk to them about your own retirement income plan. Here are three questions that we suggest:

> First, how does my plan address financial and economic factors that might put my goals at risk?
>
> Next, if my first plan shows that I've got a big gap in paying for my essential expenses, what are some of the alternatives I should be considering?
>
> And third, what happens if I need to take out more than four or five percent of my savings in any given year? Is there some way to allow for that?

It can be helpful, when you call us to talk about your retirement income plan, if you've got a few questions like those already in mind. Fidelity's representatives can help answer your specific questions and help you create your retirement income plan. Or, they can be a second set of eyes if you've already got a plan. Remember, also, this is a complimentary service. We invite you to give us a call.

We also invite you to keep watching this webcast series. Just choose your next segment, and we'll see you there. Thanks again for watching.

SEGMENT 2: Lifetime income sources

JIM: Hello, and welcome to Fidelity's webcast series, "Your retirement transition: Go from saving to spending." I'm your host, Jim Armstrong. Joining me on the webcast are Sarah Jo Brockhouse and Marcia Mantell.

In this segment, we're going to be discussing three lifetime income sources that may be building blocks of your retirement income plan. They are: Social Security, pensions, and fixed income annuities.

Now, Marcia, I know it depends on everybody's unique situation, but generally speaking, how much can folks expect to spend on essential expenses? And where is that money coming from?

MARCIA: Well, Jim, there are some interesting studies about how much retirees spend on their essential expenses. We find that those with lower incomes will likely spend a higher percentage of their retirement money on their essential expenses. But those with higher incomes often spend less on essentials.

So each person needs to figure out which building blocks they have available to pay for their essential expenses. And a good starting point is Social Security. You'll want to see how much you can expect from this important source of income when you claim your benefit.

So generally speaking, your target claiming date should be around your full retirement age, so that's between 66 and 67 for most of us. If you claim earlier than that, you lock in up to a 30% permanently reduced monthly payment. But if you can wait until after full retirement age, up to age 70, you get a boost in income of 8% per year.

So keep in mind that Social Security is designed to replace only about 40% of your wages, if you've earned average wages during your working years.

So you can get your own current estimates on your Social Security statement, and that's available at their website, SSA.gov. You can use your estimated benefit in the Social Security building block in your plan.

JIM: And just a quick mention here for our viewers. Marcia and I worked on a Social Security webcast series similar to this one. It's quite extensive, and we hope you'll consider watching it. We covered a lot of information about the different claiming strategies and other important topics. You can find a link to that webcast series in the resources section.

So, Social Security is your first building block of lifetime income. What comes next?

MARCIA: Now you'll look at any pension income you might have for retirement. Now some of you may be getting, say, a military pension, or a pension from the state, or maybe from a federal government job.

So there are three important things to keep in mind if you do have a pension:

> The first is: How you choose your pension income matters. If you're single, you could choose a single-life payout option, but if you're married or you have a partner, it's important to think about taking your payments over both of your lives. That way, if you were the first to die, your spouse or partner can still receive some income.
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> The second thing is: When you start your pension influences your payout amount. So there's generally an age and years of service requirement to get to the maximum benefit, so make sure you know the exact terms of your pension benefit, because once you start your payments, that's a lock. You have made an irrevocable decision.
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> Now third and last is: Understand if your pension will be integrated with Social Security, or if it reduces any Social Security benefits you may be receiving.

SARAH JO: You know, Marcia, I often meet with people who are coming into retirement with a pension, and many times there is confusion around how to claim that pension benefit.

They see how much income they'll be eligible for if they take it on their own single life, and then they see a significantly reduced amount if they choose a joint-life option. So I talk to them about the need to squeeze as much as possible out of this long-term benefit.

The goal is not just about maximizing monthly income at the beginning of retirement; it's also about maximizing the benefit for later in retirement, and when there may be a surviving spouse who would need that income.

JIM: Okay, so at this point, we've covered two of the three sources of lifetime income. But Sarah Jo, can you talk a little bit more about annuities now?

SARAH JO: When you think about having a reliable or predictable income throughout your retirement, annuities may be something to consider.

Keep in mind, annuities are a different kind of retirement income source. They're insurance contracts. You take some of your money and buy a contract—an agreement from an insurance company—and in turn, that insurance company makes regular payments to you.

Now, for the purposes of making retirement income, you're looking for an annuity to provide you with reliable income over your retirement, however long that lasts. So the question is, should you get an annuity? Well, it depends on your overall financial situation, your income options, and how much of your essential expenses you still need to cover.

So there are many different types of annuities, but two are often considered to help you pay for essential expenses.

One option available is an immediate lifetime annuity. After paying an insurance company a lump-sum amount, you'll get a monthly check for a set amount of money, and you'll get the same amount regardless of the market ups and downs for as long as you live.

Another option is a deferred-income annuity. In this arrangement, you're prepurchasing some of your retirement income in advance of needing it. And oftentimes, people buy deferred income annuities 10 to 15 years before they want or need that income to start. So this allows for planning for a specific amount of income to start years later, which helps manage longevity risk.

JIM: Okay, so at this point, we've talked about the three building blocks for creating that reliable, steady lifetime income. My next question, though, is: What do you do once you've figured out those monthly amounts?

MARCIA: Well, it's now important to recognize that what you're trying to assemble here is a match between expenses and lifetime income. So on the one side, you know how much you need to keep the lights on. Those are your essential expenses. On the other side, you have your lifetime sources of income. And the question you're trying to answer is, do my lifetime income sources cover all of my essential expenses?

Well in some cases, the answer is yes. And you may end up with a surplus. But in many other cases, people find out that their lifetime sources of income don't quite cover all of their essential expenses.

SARAH JO: It certainly happens, and it can be a little unsettling at first. But y'all remember, planning for retirement doesn't happen in one quick meeting. We just need somewhere to start. So we set up a high-level scenario in your planning and guidance center. This way, we can see where you're starting from, and then we'll go back several times to refine that information.

There are almost always things you can do to make the gap smaller, like choosing to work longer, or maybe part time. This allows you to save more and perhaps to delay claiming Social Security or starting your own pension.

Let me tell you about Danielle, a client of mine whose name has been changed here.

She's coming into retirement with only Social Security and her workplace savings account, and she's concerned about trying to manage withdrawals out of her savings and really prefers a steady paycheck. So we discussed the possibility of turning some of her retirement savings into a lifetime annuity so she can have a better understanding that her monthly must-have bills will be covered for life. Now, it's just one possible solution, but her situation it fits.

JIM: That's great, Sarah Jo. Thank you for that. And Marcia, thank you as well.

Now for our viewers, you may have one, two, or all three of these lifetime resources available to you, so to find your own information, here are three steps to help you get started:

> The first is to find your most current social Security Statement in your "My Social Security Account" on SSA.gov.
>
> The second is to look for your pension plan documents if you have a pension. Take a look at the terms and options for your specific payments.
>
> And, the third is to read the annuity articles in the resources section of this webcast series.

And, you might also have some questions for a Fidelity representative, such as:

> Will it really make a difference to the outcome of my plan if I claim Social Security before my full retirement age, or after?
>
> Next, if I take my pension as a single-life benefit, what happens to my spouse's or partner's income if I die first?
>
> And third, how much predictable income might I get from an immediate income annuity versus a deferred income annuity?

It can be helpful, when you call us to talk about your retirement income plan, if you've got a few questions like those already in mind. Fidelity's representatives can help answer your specific questions, and help you create your retirement income plan. Or, we can be a second set of eyes if you already have a plan. Remember, this is a complimentary service, so we invite you to give us a call.

And there's more to cover in this webcast series as well. Just click on the next segment of your choice, and Marcia, Sarah Jo, and I will meet you there.

SEGMENT 3: Saving and investing for income and growth

JIM: Hello, and welcome to Fidelity's webcast series, "Your retirement transition: Go from saving to spending." I'm your host, Jim Armstrong. Joining me in this segment on saving and investing for income and growth in retirement are Sarah Jo Brockhouse and Marcia Mantell.

We'll be talking about your own savings and investments, and how they become important building blocks in your retirement income plan. Marcia, let's start here. After nearly, maybe, 40 years of saving and investing, how do people think about all the money that they've accumulated once they're about to enter retirement?

MARCIA: Well, it turns out, Jim that's a really important question. You know, those decades of savings may now need to be turned into part of your retirement paycheck. And you can think about a retirement paycheck as how you'll pay yourself from your own financial resources, and create a reliable cash flow once your employer paycheck stops.

Now, it will be up to you to create income from your assets, and this is just a different way of thinking about your money. And I'd like to recognize here that it can be quite a shift in your thinking.

So as you move into retirement, what you've thought about for the last 30 or 40 years as building savings, now needs to transform into controlled spending, and make it last another 30 years or so.

So generally speaking, there are now three objectives for your money as you move into retirement:

> The first is to fill any gap between your essential expenses and your lifetime sources of income. So here's where you'll set up a withdrawal strategy to pay those bills. Now some folks take frequent withdrawals, you know, every month or quarter from their assets, but others prefer to sell investments so that they have six or 12 months of cash. It's up to you to decide how you'll withdraw from your investments to meet your monthly payments.
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> Now, the second goal is to create income to pay for your discretionary—you know, that fun stuff—in retirement. And the idea here is that you'll withdraw a percentage of your assets to create an annual stream of income for your discretionary spending. Now some years, you might take out a little bit more, and some years a little bit less.
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> And third is to set up an investing strategy for potential growth, with an appropriate level of risk, to help mitigate some of the financial risks that we covered in an earlier segment. It might be important to reassess your appetite for risk, and find a different asset allocation strategy that works for you.

SARAH JO: I agree, Marcia. Each person needs to rethink their investment strategy, and that can mean repositioning their assets to better fit where they're planning for their income in retirement.

If you're a single person, you've only got your own resources to rely on, and it can be a little unsettling what to do with your savings when you move into retirement.

One of my single clients—we'll call her "Alice" to protect her privacy—said that thinking about investing for retirement income was a bit like cliff-diving. You jump off a huge rock into the unknown, but it takes a while before you hit the water, so you have plenty of time to think about what you've done.

JIM: That is quite an analogy about entering retirement there. But I'm curious, what about if you're married or you have a partner? Now you've got two sets of opinions and expectations to consider.

SARAH JO: Yes, in fact there are. So I talk to spouses and partners who aren't always on the same page. I explain to them how often one is the worrier, and the other is the warrior.

Now, the worrier is cautious. They have a strong need to know that the monthly bills are covered now, and the money is still going to be there 30 years from now. They want stability and peace of mind.

The warrior wants to get as much growth as possible, even though there may be risks to achieve it. They feel like with a 30-year time horizon, they should have a more aggressive strategy and can withstand any down markets.

Now, both individuals have the same general goal: to not run out of money late in their retirement years. It's just that their approach to achieving these goals is very different.

JIM: And I'm curious here. Is it fair to say that these different perspectives might just come down to how much risk that each person's comfortable with taking with their investments? I mean, each person's got their own point of view, so how do they get on the same page?

MARCIA: Well, they're often very different outlooks when sitting here at the point of retiring. You know, each person realizes that they may well be spending their own money to live for many years in retirement. But there's a real fear about running out of your own money too soon.

So one technique you might find helpful is to focus on how market cycles work. On average, since 1926, the U.S. markets have experienced a significant correction, or a recession, every five to six years. And if you look at just the last 20 years, you can see how much volatility there's been in the market, even though overall, the trend has been up.

So, keep in mind that your investment strategy attempts to balance the risk of any future market downturns with the reality that you may be selling investments from your portfolio. And remember that you will start retirement with a long time horizon in front of you, so some growth potential is important.

SARAH JO: You know, Marcia, I coach my "worrier" and "warrior" clients about making small adjustments in their investment strategy, and that can often meet both parties' needs. And I can even show them that in the Planning & Guidance Center.

Let me give you a hypothetical example of a married couple, Mark and Carol. They have a variety of accounts between the two of them, and their underlying investments show that they're in a growth portfolio. But their current holdings are just a little higher in stocks than our model portfolio indicates as ideal.

It's not a lot different, but by shifting from 21% in bonds to 25%, it takes a bit more risk out of their portfolio. They're still set up for potential market gains, and moving their short-term cash position from 4% to just 5% gives them a little bit more of a cash cushion.

We can make small adjustments to keep the warrior happy that there's still growth potential, and increase the worrier's confidence.

JIM: Sarah Jo, what I think our viewers might find interesting about that example is how you're not saying to swing for the fences with an investment strategy. It's just small changes in your investments can help take some of the sting out of maybe any dramatic downturns that the market can take.

MARCIA: Yeah, and Jim, you know, these small shifts may still provide you with enough cash and short-term investments to pay your bills.

You know, take a look at this chart. Here you can see that an aggressive investment strategy can typically yield big returns, but it can also carry a lot more market risk. The chart illustrates the best and worst 12-month periods. But what you see is like a rollercoaster ride. You know, can you really handle these kinds of ups and downs when you're 80, or 85, or 90? So I'd say, you know, it can be important to relook and reconsider your risk capacity and your risk tolerance as you think about all your years in retirement.

SARAH JO: I do encourage near-retirees to rethink market risk in the short term and for the long term.

Take a look at this chart, where you can see what happens if you were to shift from a growth portfolio to a balanced portfolio. Over a 20-year time period, the average returns were about 9% in the growth portfolio, versus 8% in the balanced portfolio. But that balanced portfolio takes on considerably less market risk and still gets healthy growth potential.

Let me tell you about Marco and Philip—not their real names—who are a great example of the worrier and warrior mindset. Marco had always invested his workplace savings with a focus on growth, heavy into stocks. Philip felt like it all needed to move to cash, and it all needed to move

now. Now when we sat down to plan, we focused on both the immediate goal for income, as well as the longer-term goal of making sure the money lasts. I explained to them that the money they use for spending in year 17 of retirement can't just be buried in the backyard the day that they retire. It still needed to grow, and to help them outpace inflation. So, finding that investing balance is what put them both at ease.

And let me mention too, there are ways to invest if you're not comfortable creating a strategy on your own. You can use several different options. There are single-fund solutions, or managed account services tailored to your situation. My colleagues and I can discuss these options with you when you give us a call.

JIM: Sarah Jo, thanks for that. Marcia, thank you as well, for providing all of this information to our viewers.

Okay, if you're watching, and wondering what to do next, you might find these three action items helpful as you think about your personal situation:

> First, pull together all of your investment account information, and ask yourself a few questions. What investments do you have? What is your overall asset allocation? Are you closer to a growth investor, a balanced investor, or a conservative investor?
>
> Next, think about everything your money has to do in retirement. Are you confident that your current asset allocation is the right one for what's next?
>
> And third, if you're part of a couple who each, maybe, has a different point of view on investing strategies and risk, how can you both get comfortable with investing and creating income in retirement?

You might also find these three questions helpful to ask a Fidelity representative when you call us:

> Where can I find my current asset allocation, and compare it to the risk I'm taking on?
>
> What happens if I'm uncomfortable with a lot of risk, and I want to protect my savings?
>
> If I want to spend more in my early retirement years on the fun parts of retirement? What's the long-term outlook on my plan?

It can be helpful when you call us to talk about your retirement income plan if you've got a few questions like those already in mind. Fidelity's representatives can help answer your specific questions and help you create your retirement income plan. Or, they can be a second set of eyes if you already have a plan. Remember, this is a complimentary service, so we invite you to give us a call.

Okay, there's still more to cover in our webcast series, so just click on the next segment of your choice, and we will see you there. Thanks for watching.

SEGMENT 4: Creating a flexible retirement income plan

JIM: Hello, and welcome to Fidelity's webcast series, "Your retirement transition: Go from saving to spending." I'm Jim Armstrong, and I'll be your host. Joining me today are Sarah Jo Brockhouse and Marcia Mantell.

In this segment, we're going to introduce the idea of creating a flexible retirement income plan as you adjust to living in retirement. So Marcia, I get the sense that it might sound a little bit vague to some folks watching right now, so what do we mean when we say, "flexibility"?

MARCIA: Well, you know how the unexpected can come up from time to time while you're working? Unplanned expenses can continue to crop up all throughout your retirement as well. So even your best-laid retirement income plan might be pressured or challenged from time to time. The new retirees that I talk to share that it can take a couple of years to really get the hang of retirement. You know, they laid out a plan, but then almost immediately, something came up that made them swerve.

So when you think about setting up your retirement income plan—you know, with all of your building blocks organized—also think about needing some flexible spending across three broad categories. They are emergencies, opportunities, and special situations.

Now, life can get pretty complicated, even in retirement, so it's important to be flexible with your spending plan. Your year-to-year spending is just not likely to be a nice smooth ride. There may well be, as I call them, "ups and downs and all arounds" that you just didn't see coming.

JIM: Now, I think we can say that we all know the importance of having an emergency fund, even in retirement, but can you give us a little more detail about the opportunities and special situations you're talking about? I guess I'm thinking that they would sort of ordinarily be built into a retirement income plan anyway.

MARCIA: Well, you know Jim, yes and no. You can build in the concept that there can be opportunities and special situations at future dates, but you can't always identify them, or know how much they'll cost.

So you might find it helpful to think of it this way. Living in retirement means you'll have a lot more time on your hands. So, what if you get that last-minute opportunity to go on a safari? You know, it might be way outside of your planned travel budget, but wouldn't it be nice if you could go anyway, and without derailing your long-range retirement income plans.

And then there are special situations that could come up with an unplanned price tag. Let's say it's your daughter; she's getting remarried, and you decide to pay for her wedding. Or, you decide to celebrate your 50th anniversary by throwing a big party.

Your goals may also shift in retirement. Now many retirees get more involved with a charitable organization, and they decide to make a sizable contribution that's beyond their normal or usual giving amounts.

So it's these kinds of situations, you know, among many others, that can crop up during retirement, not to mention that your grandkids may need some financial support, or your aging parents may need both physical and financial support.

JIM: Okay, Marcia. Most of the examples you shared there were the sort of fun, exciting examples about flexibility, but Sarah Jo, I want to turn to you now, because I know that you talk to other people about situations in retirement that might need flexible planning, particularly in times of uncertainty, right?

SARAH JO: Yes, I do, Jim. And I find that many of my clients haven't thought much about the realities of aging.

So, I bring up those topics during our planning meets. I talk about the three phases of retirement. You'll have the go-go years, you'll have some slow-go years, and eventually, you'll have no-go years.

Now, mostly, people are focused on early retirement, those go-go years. But the fact of the matter is, most of us will eventually slow down. Now that might not be you in particular, but in general, people do slow down. It's during this time that some new special situations may arise where you need to spend additional dollars. You know, maybe you need to renovate your house so that you can live more comfortably. Or perhaps you're going to need to move.

You know, I've seen this in my own life, Jim, with my grandparents. At 89 and 90 years old, they realized that living on their own in a three-story house thousands of miles away from family wasn't really ideal as they began to slow down. So they moved cross-country to a single-story home closer to my dad—the house-next-door close, actually. But selling a home and moving in their late eighties presented several challenges, both physical and financial. Now, grandma is thrilled to finally have a washer and dryer on the same floor as her bedroom, but she wishes she had made that move much sooner.

JIM: I love that story, Sarah Jo. Thanks for sharing it. And having that long-term lens but still being open to change is really so important.

Let me turn the discussion now to how we pay to be flexible like this. So can you get a little bit more granular here, Marcia, and talk about where the cash to be flexible actually comes from?

MARCIA: Yes, this is the trickier part of creating your own retirement income. But, let's keep in mind that you already have your essential expenses covered with your lifetime sources of income, and a strategy in place to pay for any gaps.

And let's assume you've set aside a reasonable amount of money for your emergency fund.

So that leaves the balance of your savings to work with. Ideally, you'd like to use that money for discretionary and fun things in retirement, but let's say you've run into a situation, or an opportunity, that will cost more than you planned, and it puts you well over your target withdrawal rate. You have to decide if you're going to spend this extra for a great opportunity or not. But if so, it may be that you have to sell some of your investments earlier than planned to create the cash.

SARAH JO: And Marcia, that isn't always so easy. So some people decide to make the trade-off. You know, maybe they do exceed a reasonable withdrawal rate one year for that great opportunity. Or they sell an investment in a not-so-ideal market.

So, as you think about your planning, you have to ask yourself, what am I willing to trade off? Where can I be flexible?

You know, sometimes there are family situations that cause you to completely revamp your plans. You know, out with the big travel, in with helping a special needs grandchild. You know, maybe your kids return home to live with you again. Or perhaps you or your spouse loses their job. Or you might sell your big house and downsize earlier than planned to free up more cash. Now, that would be grandma's advice to you.

For most people, making trade-offs is not that difficult. They planned for one path, but then something came along, and they shift and adapt.

In fact, a client of mine, I'll call her Anna, she'd been planning on traveling the world in the early years of her retirement. Her mother had moved in a few years before retirement, and when her health deteriorated after a fall, Anna realized that she'd need to spend more of her time caring for her mom. She still takes one or two trips a year, but we had to factor in costs for a healthcare worker to take care of her mom while she's gone. Sometimes you just need to be flexible.

JIM: Got it. Now, before we end this segment, there are a few action steps for our viewers that you might find helpful to take as you think about financial flexibility in your retirement:

> First, check your emergency fund. Do you have a sufficient amount earmarked? Should it be the same amount as you have today?
>
> Next, think about what you could possible trade off, if an opportunity comes up that you'd like to take advantage of in retirement.

And third, are there any possible special situations that you should plan for in your family? Might your parents or one of your children need some additional financial assistance, for example? Of course, it's impossible to plan for an exact emergency or opportunity or situation, but it's important to build that flexibility into your plan.

To help you with that, here are three questions we suggest you ask the Fidelity representative when you meet to discuss your plan:

How much should I reserve for my emergency fund in retirement?

What if I have a situation that comes up and I need to sell some of my investments in a down market?

Can we run a few plans to model various unexpected costs?

It could be helpful when you call Fidelity to talk about your retirement income plan if you've already got a few questions like those in mind. Fidelity's representatives can help answer your specific questions and help you create your retirement income plan, or they could be a second set of eyes if you've already got a plan. Also remember, this is a complimentary service. We invite you to give us a call.

Let me thank Marcia and Sarah Jo again for bringing their insights to this segment, and I invite you to join us in the next segment of your choice. We'll see you there. Thank you for watching.

SEGMENT 5: Making the move from saving to spending

JIM: Hello, and welcome to Fidelity's webcast series, "Your retirement transition: Go from saving to spending." I'm Jim Armstrong and I'll be your host. Joining me in this segment are Sarah Jo Brockhouse and Marcia Mantell. They're going to discuss several key considerations when creating a retirement paycheck. And Sarah Jo actually also has a few examples to share with us. You could think of this segment as ideas for making that move from saving to spending.

Now, I'd like to mention here, before we jump in, that we have heard from a lot of you that you're concerned about retirement coming earlier than you expected or perhaps under different circumstances than you'd imagined. Or maybe you're even thinking about delaying your retirement. This global pandemic has affected each of us. And we're all feeling some level of anxiety connected to it. We want to suggest, however, whatever your personal situation, now's the time to get your retirement income plan in place or maybe to revise the one you might have built years ago. A lot may have changed. And Fidelity's representatives are here to help you know where you stand and to help you look at all of your options.

Now with that said, let's get started. Marcia, how can we help our viewers feel like they've got a little bit of control over their future retirement paychecks?

MARCIA: Well, it starts by focusing in on the goal. You know: What is it you're trying to accomplish by working on your retirement income plan?

It's about creating sustainable cash flow, to help meet your expenses in retirement—every year in retirement, for 30 years or more, more or less.

And I'll say here, this is exactly where my husband Dan and I are at this moment. We're concerned about the implications of this global health pandemic, on, you know, any number of fronts. We have a retirement income plan. It is all set for us to retire in seven years, when we'll each be 67. But we've had to go back to the drawing board, to see: Can we create the cash flow we might need, if one or both of us ends up retiring several years sooner than we've planned? So we look at it like we're standing right on that cliff, looking into the blue water that Sarah Jo talked about earlier.

SARAH JO: Okay, Marcia. But don't jump off that cliff just yet. You do bring up a really important point that my colleagues and I discuss during our meetings with clients. You know, we help them prepare for their ideal retirement date. And we look at what could happen if retirement comes sooner than expected or if they decide they want to work longer.

We did the same scenario-building before the pandemic. Remember, lots of retirees entered retirement during the 9/11 crisis, the housing bubble, the Great Recession of 2008 and 2009, and a number of other ups and downs as they get ready to retire.

Now, COVID-19 has made planning more urgent, but we've seen other rough patches. And we're seeing increased anxiety from some of our clients. But we also see that they appreciate gaining a better understanding of their situation when we plan for both their ideal retirement and other possible situations. It may be that your spouse or partner or your parents need caregiving. It might be that you become ill or that your kids and your grandkids move back into the house.

Now, the goal of building a retirement income plan is to know how your cash flow is going to work in various scenarios. It puts you in control. Or it helps you regain control. We want you to know what to expect—that, despite all the noise, you can have some peace of mind.

JIM: Okay. So for people watching right now, maybe they're getting ready to start or restart their plans. I think the number-one question is, Where do I even begin?

MARCIA: Well, start with what you've got. You know we want to pull out every single financial account or investment account that you have. And the same for your spouse or partner, if you're planning together. Think about how you've got some 35 or 40 years' worth of savings, plus 5 or 10

or 15 or more different accounts. So it's time to see what you have where, and take the time to get your financials in order.

Now we talked earlier about the building blocks you'll need, to stack—to generate—that income, right? We've got tax-deferred assets and tax-free accounts, taxable investments, and lifetime sources of income. Let's expand on those a little bit and add in more detail, specific to creating a retirement paycheck.

Now every account has different rules for when you can access the money and when you might owe taxes, on either the amount you withdraw or on the earnings. A big part of retirement income planning takes all of those various rules into consideration.

Now, in general, you'll control three of the categories, when it comes to creating your retirement paycheck. But with the fourth category, lifetime sources of income, you make claiming decisions that are generally irrevocable.

Now with tax-deferred accounts, you decide how much to take out, until you're age 72. Then there are required minimum distribution rules you must meet. And separately, you decide if you want to use your required minimum distribution for your own income or for tax-advantaged charitable giving.

Now in the second category, the federal tax-free category, Roth assets may be used for income. Or the IRS allows you to leave the amounts in your Roth account, as long as you live. So in other words, there are no required minimum distributions with Roth IRAs. And HSA dollars can be used for qualified healthcare expenses, including paying for some parts of Medicare.

Now the third category you may have—other income sources, that are in taxable investment accounts or maybe that generate income. These are things like working or starting a business. Or maybe you have rental property. So you'll decide when to sell different investments or how to generate income from each of those sources.

And then, separate from those categories and those accounts, well, you may also have income coming in from Social Security or pensions or annuities. Plus you have to think about Medicare and supplemental insurance coming into the picture. Now once you're in Medicare, it generally affects the amount you receive in your Social Security check.

And last, there's another set of accounts you may need to consider. And they're generally called legacy accounts. You may be the recipient, for example, of inherited IRAs or inherited Roth IRAs. Now they each have required minimum distribution rules. But they're different than the ones on the accounts you own. There's also planning on how you pass, maybe, stock that you own. You might consider the NUA strategy: net unrealized appreciation. Or you might set up one or more trusts for your heirs.

SARAH JO: You know—and, Marcia—these categories are considered high-level information. There's another layer underneath each account: your specific investments. Now when it comes time to recreate your retirement paycheck, you are literally deciding which investments to sell and when to sell and how much to sell.

We hope it's becoming clear to see just how many possibilities there could be for creating your paycheck in retirement. You might want to talk to our representatives, who can help you organize everything you've got to work with, and apply all the rules that come with each different account and help you think about which investments to sell at different points in time.

Now, this is where you really think about turning on different faucets to create cash flow in retirement. Every account has a faucet. And you need to know when to turn them on, how much pressure to apply, and how much cash will come out for income and how much tax is due.

JIM: So actually, speaking of that, Sarah Jo, I know that you and your colleagues use the Fidelity Planning & Guidance Center to help people do just that: figure out their own plan. So could you walk us through an example and show our viewers the output they get when creating their own income plan for retirement?

SARAH JO: Sure. Let me show you how things work here at Fidelity, using a hypothetical example for an individual; let's call her Maria.

Maria is 56. And she's still working. She's concerned that she may not get to work until her ideal age of 65. Current circumstances have her seriously thinking about retiring at 62. When she calls or meets with a Fidelity representative, they can help her set up her initial retirement income plan.

So first, we're going to enter some key information about Maria: her time horizon for retirement, her estimated tax rates, an estimate for Social Security, and so on.

We'll talk about her budget for retirement: how much she might need for her essential expenses. And how about for retirement fun? We can build a detailed budget or use general estimates here.

Then we include all of her different accounts here at Fidelity and add any from other institutions and former employers. You can see in our example that Maria has six different accounts. Some are labeled retirement. That means they fall into the tax-deferred category Marcia talked about earlier. And others are taxable accounts.

We also get to see her detailed investment mix and how each account is allocated in stocks, bonds, and short-term investments. That way we get a clear picture of Maria's current asset allocation.

Remember from our earlier segments—we talked about how in retirement you have to create income and make sure a portion of your money stays invested, for growth potential. In Maria's case, we see that her asset allocation is not too far off from the time-based model portfolio in the tool.

After the specifics are set, we run the initial analysis. Maria will get a first look at her Fidelity Retirement Score.

In technical terms, the Fidelity Retirement Score represents the percentage of your average estimated retirement expenses your plan could cover, assuming an underperforming market. In more practical terms, it's a number that helps you see if your income is likely to last for 30 years.

And let me tell you, this is the kind of result we get frequently. Maria's first Retirement Score is 76. She's in the yellow or fair zone.

The first pass at seeing if Maria could generate enough cash flow for a 33-year retirement showed a shortfall in the year 2041. At this point, she could run out of money just 16 years into her retirement.

JIM: All right. Sarah Jo, let me stop you there. This is not a pretty picture here. Nobody wants to run out of money so early in their retirement.

SARAH JO: Exactly, Jim. But I want to assure you that most retirement income plans are not created after just one initial pass. We have to start somewhere. And in our example case, we looked at what Maria's situation might look like if she faces an early-retirement situation.

When we see this sort of result and a possibility of running out of money, it's time to get down to business.

So now we go back, to see what her plan will look like if she can work to her ideal retirement age of 65. By only changing her retirement age from 62 to 65, the plan is considerably healthier. Her Retirement Score jumps all the way to 87.

Now, though Maria could still face a shortfall 23 years into her retirement, you can see why it's important to consider the implications of wanting to or needing to retire earlier than planned.

JIM: So let me ask you this, though. Is there any scenario in which Maria would not run out of money? And even if she can work until 65, she's still vulnerable in her oldest retirement years.

SARAH JO: She is. But there are more scenarios to look at. And let's remember, even if she has to retire early, her essential expenses could be fully covered if she cut back on some her discretionary spending.

So I took a look to see what would happen if she could work until her Social Security full retirement age. So at 67, she would stop working and start claiming her benefit. In that case, her score reaches 98. And any shortfall would happen in her estimated last year of retirement.

Now, it may not be possible for Maria to work until 65, let alone 67. But looking at the situation from various angles and running several different scenarios will show us how flexible you may need to be with those decisions.

And when we're done building a scenario, you'll get a detailed output report that shows where your plan stands at this point plus suggestions and action plans for any changes you might want to consider to improve that outlook.

JIM: So let's add to the conversation now, Marcia. I want to ask you to talk a little bit about some strategies that our viewers could think about, based on when they might retire versus when they might turn on some of those income sources.

MARCIA: Well, one thing that's important to understand, when it comes to creating income throughout your retirement, is that you'll likely have two critical paths. One path is when to leave your job—if you get to make and control that decision. The other path is when to turn on each of the accounts you have so you can use them for cash flow.

So planning now helps you effectively know how to create cash flow, if you have to retire early.

Now, we just saw in your example, Sarah Jo, that working longer can make a big difference in outcomes. So one strategy is to reconsider early retirement when you can. So if you unexpectedly lose your job, could you find another one? Or could you work part time, if you find you also need to care for someone?

So another strategy to think about is what we call a financial bridge strategy. In this case, you might buy an immediate fixed-income annuity with a specific end date. So, for example, you could buy an annuity with a 5-year payment period, to bridge your income until your full retirement age. Or maybe you think about a 10-year payment period, if your goal is to wait to claim Social Security until age 70.

SARAH JO: I've seen others use bond ladders as a strategy for income, before their required minimum distributions begin at age 72. They might set up two or three bonds with different timelines and sell each bond in order.

Or if they have to retire really early—say in their mid-50s—and ask about using their IRA money because they need some income, they could explore setting up what's called a series of substantially equal periodic payments. This is an allowed method by the IRS, where an IRA owner who is not yet 59½ can tap their IRA for a specific amount of income without incurring the

additional 10 percent early withdrawal tax penalty. There are a lot of rules and technical details with this option. So you would want to talk to a tax professional before taking any money out of an IRA.

MARCIA: And the strategies you use will really depend on your particular situation. So the key is to learn about your options and see which ones might work for you.

Now, one strategy to keep in mind is the access rules and the tax rules around various investment accounts often have an age trigger. So your birthdays now get to be important.

So, for example, if we go back to our chart, you can see that at age 59½—as Sarah Jo was talking about—this allows you to access your traditional IRAs and small business retirement plans without a 10% early withdrawal penalty. Now if you're a widow or widower at age 60, that opens the door for you to apply for surviving spouse benefits with Social Security. Age 65 is critical for enrolling in Medicare. And age 72 is when RMDs begin. And so on.

JIM: All good strategies to consider, Marcia. Thanks for that. Sarah Jo, I'd like to have you talk about just one more topic before we wrap up this segment. And this is: How does somebody mechanically turn on those—the faucets that you described earlier—and turn investment assets into cash flow for a retirement paycheck?

SARAH JO: This is the really important last step to creating your retirement income, when the time comes. We talk about several steps to take.

First, think about how you might make your financial life easier to manage. And we talked earlier about many different kinds of financial building blocks you may have. You may find that by organizing them, you can get your arms around all your resources that may eventually be used for income.

Once you have a full view of all your various accounts, you can set up automatic distributions from most tax-deferred accounts, right into your brokerage core position or to a bank checking account.

You can also set up specific dates to sell some investments and rebalance your accounts and move the cash proceeds to your bank or brokerage account. We often see people selling investments in a pro rata arrangement. They sell an equal percentage from each underlying investment at a specific time, on a quarterly or annual basis. Where others sell a specific investment or two to generate the cash they'll need for, say, the next year or 18 months.

Fidelity will help you with your required minimum distributions. We can estimate how much you must withdraw each year from your retirement accounts that you have here at Fidelity. And we can put this on autopilot, as well.

And another service we provide is making many of your tax forms on your investment accounts available online.

Bottom line is that we have a lot of ways to help you to know when to turn on those faucets and how much needs to come out to meet the distribution rules. We can help you set up and manage your withdrawals throughout your retirement.

JIM: Sarah Jo, thank you. Marcia, thank you, as well, for helping make such a big topic come to life.

We've covered a lot of information in this segment. And our viewers might be wondering where to start on their own retirement income plans. You might find these three action items helpful places to begin:

> First, identify and simplify your financial building blocks. Find out how many accounts and different resources you might have available for your future retirement income.
>
> Next, use your retirement income plan to build and to review various scenarios, such as if you end up retiring earlier or later than your ideal plan.
>
> And third, check out other tools and resources that you can find online. And remember to check back from time to time for new tools and information that can help you.

We also wanted to leave you with a few questions that you can ask your Fidelity representative, when you're ready to talk to them about your own retirement income plan:

> What would happen to my cash flow if I have to retire before I'd ideally like to?
>
> "Besides working longer, what other choices do I have for stretching my savings to last longer?"
>
> "What income strategies could I consider if I want to retire early but delay claiming Social Security?"

And I'd like to mention here that it is really helpful, when you call Fidelity to talk about your retirement income plan, to have a few questions just like those already in mind. Our representatives can help you answer your specific questions. And they can help you create your retirement income plan. Or they can be a second set of eyes, if you already have a plan. Remember, this is a complimentary service and is only a phone call away. So we invite you to give us a call.

Now, feel free to please choose your next segment and join us there. Thanks for watching.

SEGMENT 6: Equity compensation and nonqualified plans

JIM: Hello, and welcome, to Fidelity's webcast series, "Your retirement transition: Go from saving to spending." I'm Jim Armstrong.

In this segment, we'll be talking about your choices if you'll be receiving a stock award, if you've been granted stock options that can be exercised around your retirement date, or if you have nonqualified deferred compensation.

Sarah Jo Brockhouse has joined us to talk about the possibilities these types of compensation bring with them and how you might augment your retirement cash flow plans beyond what we talked about in earlier segments. So, Sarah Jo, thanks again, for being here to discuss this with us.

SARAH JO: Glad to be here, Jim. Before I highlight some ideas for our viewers, I wanted to say that these types of compensation are not available to everyone. And therefore, this section may not apply to every viewer's specific circumstances.

Before we dive in, I'd like to define the types of compensation we're talking about. First off, equity compensation can go by many names, like executive compensation, stock plans, stock grants, stock options, long-term incentives, or restricted stock awards or units. So no matter what your company calls it, it means that part of your overall compensation and benefits are tied to your company's stock.

JIM: All right. So a lot of synonyms there, Sarah Jo. Got that straight. Nonqualified deferred compensation, though, is a little bit different, right?

SARAH JO: It is—sometimes called NQDC or nonqual plans, for short. You might also hear them referred to as deferred-compensation programs or DCPs and elective deferral programs or EDPs. These plans are typically available to key employees and other high-earners, and allow people to defer more of their compensation than they could in a 401(k) or 403(b). Essentially, they're agreements with an employer to defer a portion of annual income and federal taxes until a specified date in the future, which could be 5 or 10 years down the road or even when you start your retirement. Now, it is worth noting that eligibility is determined by the employer and can change from year to year.

And before I go on, I should state that the information we'll talk about in this segment should not be considered guidance to participate in one of these programs or advice on when to elect distributions. For nonqualified plans in particular, there can be risks involved, such as company bankruptcy and insolvency. And there can also be significant tax implications on the decisions that you make. So if you're considering a plan like this, work with a trusted financial advisor and a tax professional, to see if it's right for you.

JIM: All right. Thank you for that, Sarah Jo. Now that the housekeeping stuff is out of the way, let's talk about how these types of compensation might come into play, when someone's trying to plan out their retirement cash flow.

SARAH JO: Well, as with anything financial, every company, every plan, every award type is different. So I'll talk in general rules of thumb here today. Whether you have restricted stock awards, stock options, a nonqual plan, or something else, the first thing to do is sit with your plan documents, read the rules, and know what your award really means.

If you have a stock plan, look at how long you have to exercise the options, your vesting schedules, the expiration dates, and your blackout dates.

JIM: Lots of details it sounds like the person has to be aware of.

SARAH JO: There are. And if you have a nonqual plan, you need to know what the contribution amounts and distribution rules are, both for you and your beneficiary. Scrutinize the details; that way, you can think about what they really mean to you and use this information to guide your decisions.

JIM: All right. Sarah Jo, I'm definitely hearing how important it is to know your plan's rules. But why is it so important, particularly if you've got equity comp, near the point of your retirement?

SARAH JO: You know, I'm glad you asked that, Jim. I really can't stress it enough. Knowing your plan's rules is one small step to preventing leaving money on the table. And that's something I take very seriously. So I'll share a few examples.

First story is about knowing the separation rules before resigning or retiring. Now, most stock awards stop vesting when you leave a company. So you really need to plan for exercising your vested options, and then you can time your resignation accordingly. I once had a client plan their retirement date for mid-December, in order to be home for the holidays. But unfortunately, they didn't realize the next set of vesting was December 31st. And the difference of two weeks meant a chunk of money got left behind. So, after our conversation and some careful consideration, they decided to retire in January instead.

And it's worth mentioning too, if you leave a job for another reason, for instance, because of early retirement offers or a severance package, your plan rules will likely be different. So be sure to read the fine print.

JIM: I wanted to also ask specifically about people who have a nonqual plan. Any watch-outs for them?

SARAH JO: Oh, absolutely. Nonqual plans are often specifically linked to your retirement or separation from a company. But sometimes they can be deferred for shorter periods of time.

Often, though, the decisions you make related to the plan are irrevocable. You know, I'm going to say that again. The decisions are often irrevocable. So not understanding the plan rules can have hefty consequences.

I had a client who thought a nonqual plan worked just like a 401(k) and assumed that distribution decisions could be made at retirement. That's not the case. When we reviewed the elections that were previously made, over $400,000 of distributions were set to occur at separation. So the unintended consequences? Well, he's, maybe, age 47 and felt locked into a company, just to avoid paying taxes on a significant lump-sum distribution.

JIM: That sounds like a serious reason to read the fine print. And hopefully, stories like that can help set some of our viewers watching right now up for success. So that's good. Let's switch gears, though. Sarah Jo, can you tell us a little bit about what kinds of decisions people need to consider, when it comes to their stock awards or stock options?

SARAH JO: So here's what I tell my clients. You have three big questions to ask yourself.

First, when should you exercise your options or sell your stock? You need to keep track of when your options will expire, so you don't miss out on them.

If you have restricted stock, your timing question is a little different and more complicated. When do the shares vest? What are your expectations for the stock price's appreciation? How are you feeling about the market in general? And how does owning your company's stock fit into your overall investment portfolio and your need to create retirement income in the future? And then, of course, would it make sense to sell them now and invest in something else?

You know, the second question is how you should account for taxes.

Now before I elaborate, I do need to say that Fidelity does not provide legal or tax advice and nothing we discuss today should be interpreted as tax advice. The information I'm providing is general in nature and may not apply to your specific situation. If you have tax questions about your specific situation, you should talk to your tax advisor.

In general, when you exercise stock options or sell vested stock, there are likely to be tax implications. So be sure to work out the math and either have some money deducted or set aside, to cover your tax bills. If selling or exercising puts you into another tax bracket this year, does it make sense to possibly wait? Of course, again, you need to know if you have the flexibility to wait, per your plan rules.

JIM: Okay. I've been keeping track. Those are the first two questions, Sarah Jo. What's the third?

SARAH JO: Oh. This is the fun part. What do you want to do with the proceeds? And how can that then factor into your retirement cash flow?

There are always ways to spend a lump sum of money. You know, maybe your grandkid needs braces or your car just hit 150,000 miles. Maybe you want to pay off the mortgage, or work with a financial advisor to create a bridge strategy to get you to retirement. Whatever you do with the proceeds from a stock sale, remember it's not tax-advantaged. So you'll have a tax bill that year.

And if there's not an immediate need for the money, I like to challenge my clients to look at the long game. You now have additional opportunities, because this lump sum of cash exists.

JIM: What kind of opportunities?

SARAH JO: Well, for starters, when you have income in hand, it could allow you to increase your deductions, to maximize contributions in your tax-deferred retirement savings accounts, like a 401(k) or a 403(b), or to fund a Roth or traditional IRA, for both yourself and a spouse. And don't forget, if you're over 50, you could make catch-up contributions to many tax-deferred accounts. And if you've maxed out all your tax-deferred options, you could invest your money in a taxable account and earmark that for retirement.

Then if you have both equity comp and a nonqual plan and your plan allows it, you might find you're in a position to defer some income into the nonqual plan, because you'll have income from exercising your shares.

JIM: All right. That's quite a list of options, right there. But my sense is you've probably got a couple more.

SARAH JO: Just a few. A lump-sum payout could also give you the opportunity to set aside cash for flexibility in retirement, like we discussed in the "Creating a flexible retirement income plan" segment, as a part of this webcast. So you could pay off debts to reduce your monthly expenses. You know, that's a great topic to discuss with your financial professional, to see how this windfall could best play out to be used in your retirement strategy.

JIM: Okay. Thanks for the information for folks with equity compensation. What about people who have nonqual plans, though? Any similar, maybe, thoughts or decisions that people might need to make there?

SARAH JO: Of course. You know like I said, this is not an encouragement to participate in a nonqual plan. They're not right for everyone. But here are a few rules of thumb:

First, only consider these types of plans after you've maximized all of your other tax-advantaged savings opportunities. Max out your 401(k) or 403(b). Max out the IRAs. If you're over 50, don't forget your catch-up contributions.

Second, these plans come with risk attached. So if that makes you uncomfortable, they may not be right for you. For instance, company bankruptcy or insolvency could mean your deferred money is subject to potential loss and to claims from creditors.

Third, some of your decisions will be irrevocable. Once you've set up a distribution strategy, it might be difficult, if not impossible, to change. There can be exceptions, in cases of extreme hardship, but, for the most part, you can't just change your mind and ask for deferred compensation a year or two earlier than your scheduled distribution date.

And finally—and this is probably the most important part—talk to someone. Better yet, talk to two professionals before you make any decisions about participating. Work with a financial advisor to run scenarios of how this money might affect your finances today, by deferring it; and down the road, when you get to retirement. And also be sure to talk to a tax professional; there are many tax implications of these plans, both for your taxes now and at distribution.

JIM: Sarah Jo, I just want to say thank you again, so much, for your insights here.

Before we end this segment, there are a few action steps that you might find helpful, when it comes to executive comp or nonquals:

First, know if you have restricted stock, stock options, or something else.

Next, don't leave a company without knowing the separation rules of your plan.

And third, don't leave money on the table.

Now remember, if you're working with your own advisor, Fidelity can be a second set of eyes for you. So if you've got benefits like these and need some help making sure that you're optimizing everything that's available to you, please reach out to us. And remember, this is a complimentary service and is only one phone call away.

Sarah Jo, thanks again, for your help in this segment. And thank you to our viewers for joining us today. You can click on the next segment of this series and we'll see you there.

SEGMENT 7: Common retirement income questions

MILLION DOLLAR QUESTION

VO 1: I heard I need a million dollars to retire. I don't have it. Can I even retire?

VO 2: There's no ONE answer to that question. It's very personal.

It all depends on a whole bunch of things: the age you retire, the lifestyle you hope to have, even how much you've saved...

And did you know that where you live in retirement can affect your retirement savings?

Sometimes, moving to a lower-cost region can supercharge your retirement plan.

The cost of living in San Francisco is about twice the national average.* And Memphis, Tennessee? Only about 80 percent of the national average.*

That's why a retirement income plan is so important.

We can't tell you exactly how much you need—it just doesn't work that way.

But we can help you figure out how to stretch what *you've* saved so it fits *your* plan.

DISCLOSURE: *The cost of living data is based on the Cost of Living Index research from the Council for Community and Economic Research as of 2019 as published in February 2020.

MEDICARE COVERAGE QUESTION

VO 1: I've heard that Medicare won't cover all my healthcare expenses in retirement. So, what do I need to plan for?

VO 2: You're not alone. It's a surprise to most people that Medicare doesn't cover everything...and that it isn't free.

And, it can cost a lot. Often between $200 and $500 per month per person—depending on your health, where you retire, and how long you may live.

Keep in mind that Medicare is designed to help you pay for your healthcare needs.

Medicare has three different parts: Part A covers most hospitalization costs. Part B covers only 80% of doctors and outpatient care costs. And Part D helps lower the cost of prescription drugs.

That means you're on your own to pay your share. Most people do that by buying supplemental insurance—either a Medigap policy or a Medicare Advantage plan.

Everyone's costs will be unique to their situation. Use the tools on Medicare.gov to estimate your costs, then include those costs in your retirement budget.

It's a good place to start your planning.

MORTGAGE QUESTION

VO 1: Is paying off my mortgage before retiring a good decision?

VO 2: Well, some people think so. Others don't agree. We can say it's a personal decision.

How will it make you feel? If paying off your mortgage will make you feel more secure or more confident, then maybe it is the right move for you.

Or perhaps you've been steadily paying down your mortgage for 15, 20, or 30 years. And, you're ready to celebrate your full ownership.

There can be some real financial benefits to paying off your mortgage. For one, you'll likely improve your cash flow just at the point of retirement.

Not to mention the weight it takes off your shoulders—what a relief knowing you're out of debt.

But there are things you should watch out for.

Like losing a valuable tax deduction.

And, if you're trying to pay off your mortgage just because you're retiring, it may help to look into how that could affect your savings and investments.

It's a good idea to run your numbers and think strategically about how your house fits into your overall retirement income plan.

SOCIAL SECURITY QUESTION

VO 1: What is the best age to take Social Security?

VO 2: That's a tough one, but we'll give it a try.

Since everyone's financial needs are different, there's technically no "best" or "right" age to take Social Security.

It might be a good idea to aim for your full retirement age—and then see where you are in life. For most of us, that's somewhere between age 66 and 67.

You might be able to delay until age 70 and boost your monthly payment.

Or, your personal situation might mean you need to claim a little early—as young as age 62.

But if you do, you lock in lower Social Security payments for the rest of your life.

What's important is that you make decisions based on your needs: your employment situation, family and life obligations, and retirement savings.

Want to learn more?

We've got a super-detailed, deep-dive webcast called: "Social Security: Make your decisions with confidence."

It breaks it all down and answers lots of common questions—so check it out.

MANY ACCOUNTS QUESTION

VO 1: I didn't realize I have so many accounts for retirement. Should I put them all in one place?

VO 2: All those accounts. Right? The one from work. The one from that old job. That pension. The IRA. Savings accounts. HSAs.

After decades of saving for retirement, it's not unusual to have accounts scattered all over the place.

But each account carries different IRS distribution rules, requirements, and tax obligations—plus penalties if you make mistakes.

Lots of people find it easier to manage this complexity when all of their accounts are in one place.

Consolidating accounts can make it easier to create a tax-efficient cash flow that has the potential to last throughout retirement.

It might also help avoid account fees that can really add up.

We get it. You've been busy building your career and saving for the future.

We're here to help you transition from saving for retirement to living in retirement. Just give us a call.

DISCLOSURE: Be sure to consider all your available options and the applicable fees and features of each before moving your retirement assets.

RETIRING IN FIVE YEARS QUESTION

VO 1: We're retiring within the next five years. What saving strategies should we be considering?

VO 2: Congratulations! You're close, but you've still got time to save more.

Here are two common strategies people often look at as they get close to retirement.

First is supersaving. Look into maximizing your 401(k) or 403(b).

Plus, people over 50 may be able to save even more using catch-up contributions.

And second, reassess how much market risk you're taking on with your investments.

Five years before retirement can be a good time to rethink how market ups and downs could impact your overall portfolio value in the short term.

Give Fidelity's representatives a call. They'll help you find savings strategies that may match your goals.

RETIRING SOONER THAN PLANNED QUESTION

VO 1: I'm retiring sooner than planned. What's the earliest age I can withdraw money from my retirement accounts?

VO 2: When it comes to distributions from your retirement accounts, you've got options.

But there are taxes and penalties to watch out for—and rules to be aware of.

Withdrawals from 401(k)s and 403(b)s before age 59½ are subject to income taxes and an additional 10% penalty. But you may be able to take a penalty-free withdrawal as early as age 55 in some circumstances.

There are specific rules about how you can access your money. Check with your retirement service provider for more info.

A withdrawal from a traditional IRA can be done at any time, but there are taxes and possible penalties—unless you qualify for one of the few exceptions.

A withdrawal from a Roth IRA is federally tax free, as long as you're age 59½ and have met other IRS rules.

So, it's a good idea to talk with a tax professional.

DISCLOSURE: A distribution from a Roth IRA is tax free and penalty free, provided that the five-year aging requirement has been satisfied and one of the following conditions is met: age 59½, disability, qualified first-time home purchase, or death.

TAXES IN RETIREMENT QUESTION

VO 1: Will we need to think differently about taxes in retirement?

VO 2: It can be a surprise that you might owe taxes on your retirement income. But, that's the case for many people.

Different types of accounts and income sources have different tax requirements.

Let's take your retirement plan at work—your 401(k) or 403(b). You've been saving for maybe 30 or 40 years in a tax-advantaged account.

Because taxes have been deferred on that income, it's time to pay up.

You'll be subject to ordinary income tax on any money you withdraw—the amounts you contributed and any growth on your investments.

Then, there are traditional IRAs—same thing here—you generally owe income tax on any money you withdraw that wasn't previously taxed.

That includes any investment earnings that built up over the years.

If you have higher income in retirement, you may find that you owe taxes on your Social Security benefits.

And, any pension and annuity income generally come with a tax bill too.

IRS Publication 554 might be a good place to explore how taxes change once you're retired.

Then, reach out to your tax professional.

HEALTH SAVINGS ACCOUNT QUESTION

VO 1: Can I use my health savings account (HSA) to pay for health insurance after I retire?

VO 2: We get this question a lot. Many folks have been saving for years in their HSAs but aren't sure how to use it once they retire.

Here's a way to break it down.

How you can use your HSA depends on your age.

If you retire *before* turning 65, you may need to buy health insurance on your own.

And there are only two situations where you'll be able to use your HSA to pay for health insurance: if you choose to continue on your former employer's group health insurance plan via COBRA or if you're receiving unemployment compensation and paying for your own health insurance premiums.

If you retire *at* or *after* age 65, you're likely eligible for Medicare.

You can use your HSA to pay certain Medicare expenses, including premiums for Part B and Part D.

Now, it can be really challenging to figure out health insurance and Medicare on your own. But don't worry, there are lots of resources available to help you.

Take a look.

ANNUITIES FOR RETIREMENT INCOME QUESTION

VO 1: I've heard annuities can be used for retirement income. Are they a good idea?

VO 2: Well, you've heard right. Certain annuities can be used for retirement income.

And, they may be a good idea for some folks. But you'll really have to spend some time figuring out if they're right for you.

There are lots of flavors of annuities.

Let's look at two kinds that can deliver guaranteed income throughout retirement—fixed income and deferred income annuities.*

Fixed income annuities provide a specific amount of guaranteed income for your lifetime. Or for a shorter period of time that you set.

In exchange for a lump-sum payment, the insurance company sends you monthly income. This typically starts immediately or within 12 months.

Now, deferred income annuities also pay a specific amount of guaranteed income, but generally not until later on in retirement.

You purchase a future income amount before you want that income to begin.

Then, at the age you chose, your payments automatically start up and continue throughout your remaining retirement years.

Keep in mind that in order to provide these income streams, you generally have no—or very limited—access to these assets.

One way to explore how annuities might work in your retirement income plan is to talk with a licensed insurance professional.

We can help with that. Just call or visit us online.

DISCLOSURE: *Annuity guarantees are subject to the claims-paying ability of the issuing insurance company.

Investing involves risk, including risk of loss.

Fixed annuities available at Fidelity are issued by third-party insurance companies, which are not affiliated with any Fidelity Investments company. These products are distributed by Fidelity Insurance Agency, Inc. A contract's financial guarantees are solely the responsibility of and are subject to the claims-paying ability of the issuing insurance company.

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Disclosure continued from the Balancing risk and returns slide and the Lower risk vs. growth potential slide.
Data source: Fidelity Investments and Morningstar Inc. Hypothetical value of assets held in untaxed portfolios invested in US stocks, foreign stocks, bonds, or short-term investments. Historical returns and volatility of the stock, bond, and short-term asset classes are based on the historical performance data of various unmanaged indexes from 1926 through the latest year-end data available from Morningstar. Domestic stocks represented by IA SBBI US Large Stock TR USD Ext Jan 1926–Jan 1987, then by Dow Jones US Total Market data starting Feb 1987 to Present. Foreign stocks represented by IA SBBI US Large Stock TR USD Ext Jan 1926–Dec 1969, MSCI EAFE Jan 1970–Nov 2000, then MSCI ACWI Ex USA GR USD Dec 2000 to Present. Bonds represented by US Intermediate-Term Government Bond Index Jan 1926–Dec 1975, then Barclays Aggregate Bond Jan 1976–present. Short-term/cash represented by 30-day US Treasury bills beginning in Jan 1926 to Present. Past performance is no guarantee of future results. The purpose of the target asset mixes is to show how target asset mixes may be created with different risk and return characteristics to help meet an investor's goals. You should choose your own investments based on your particular objectives and situation. Be sure to review your decisions periodically to make sure they are still consistent with your goals.

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