Money Unscripted | Can your Retirement survive a down market?

TED: We all want to live a comfortable retirement. Then you see the numbers go down, and yeah, a little bit of doubt forms.

ALLY DONNELLY: I want to talk about your decision to retire.

TED: It's one thing to think about it from a theoretical perspective. It's another thing to live it.

ALLY: Market volatility can feel stressful, especially if you are close to or in retirement.

ANDY: Absolutely it can. We believe that every successful retirement plan should have three key components.

ALLY: Now that you're in retirement, how does it feel?

TED: On a scale of 1 to 100, I feel like 110 right now.

[UPBEAT MUSIC]

ALLY: Feeling great in retirement is the goal, but the uncertainty in the markets can make you feel uneasy about what's ahead or how to plan your future. Hi, I'm Ally Donnelly, and this is Money Unscripted, a podcast from Fidelity.

Coming up, we're talking to Fidelity pro Andy Alvarez about the three keys to a successful retirement, whether the market's up or down. But first, meet Ted. He has big plans for his retirement, though he did have some second thoughts on timing. He told me the one thing that gave him the confidence to start this next chapter.

ALLY: So this is where you're going to be spending your retirement.

TED: Here it is. It's my husband's lighting store. I'm going to be partnering with him to make it even better.

TED: You're seeing a lot of lighting fixtures that date back to the 1800s, early 1900s that have basically been taken and restored. The vibe is very creative. It's very fun.

ALLY: So you'll be working here.

TED: Yes.

ALLY: Any other plans?

TED: I'm going to be writing some more, and I'm also going to be traveling. We're going to be going to Paris in about a month.

ALLY: Oh, that's awesome. I want to talk about your decision to retire. So how did you know you were ready, both personally and financially?

TED: I always said that when I turned 60, I wanted to do things that I was really passionate about. And I turned 60 in December. I'd have those Sunday nights where I'd be preparing for the week ahead. I'd get a little bit of Sunday blues, if you will. And finally, one Sunday night, I was like, it's time.

ALLY: How did you know financially, or how did you feel like you had enough?

TED: Well, I definitely had a certain number in my mind when I reached this amount in my 401(k). That's when I did feel like, OK, I've made my nut, if you will, and now I'm ready where I can move on and do different things.

ALLY: Looking at the markets, we've seen some ups and downs lately, how did that factor into your decision to retire?

TED: Yeah, there's jubilation, like, hey, this is going to be OK. And then it would go down. There was a certain pit in your stomach that you'd feel a hollowness, if you will, maybe this is not going to be OK.

Maybe I'm not going to make it through. We all want to live a comfortable retirement. And I thought I was there, and then you see the numbers go down and a little bit of doubt forms.

ALLY: Say more there.

TED: I did have some frank conversations with my financial advisor about, OK, so what does this mean? And she was really, really helpful in the sense that she's like, Ted, think long term. Look at your objectives. Are your objectives still in line? Do you need to adjust them at all? You're good. You got this.

ALLY: And that gave you peace of mind.

TED: Yes, for that day. And then something else would happen.

ALLY: So what convinced you what was going to be OK?

TED: I think what cinched it for me was a conversation I had with my advisor where she said, Ted, the number that you have-- the amount that you have right now isn't finite. That's not the be-all and end-all that you're going to draw off of for the 30 years. That continues to grow. That continues to grow for 20 to 30 more years. And that's the point where I was like, all right, maybe this is the time that I can do it then. That gave me the motivation that I needed.

ALLY: But now that you're retired and the volatility continues at this moment, are you still checking the numbers daily? What does that look like?

TED: I am not. I know that if the market's going down that probably that's going to reflect in my retirement balances. So just I make it a habit to just focus on other things that day.

ALLY: Speaking of focusing on other things, you're in retirement. You've been here for a little bit. How does it feel?

TED: It feels good. I'm feeling a lot better physically because I've got a lot less pressure on me. I feel a lot more invested and a lot more passionate. I'm kind of like, gee, I love this. I love this. I want to keep doing this.

ALLY: That's so great for Ted. Andy, how do you talk to clients about the market volatility we've been seeing, especially those who are either close to or in retirement?

ANDY ALVAREZ: Hey, Ally. It really all starts with revisiting the plan. Why did you make the decisions you did initially, and what's changed? Has something in your life significantly changed that's causing you to rethink whether the plan is set up the right way for you, or has the market volatility caused you to think differently about what level of risk you're really comfortable with?

Ultimately, there are things you can do. We, of course, can stay the course and stay invested in the way that you have been, or you can make changes. What's important is understanding how do we customize it to you, and how do you get the comfort you need to stay invested through the long term?

ALLY: If I'm trying to map out how to make my money last through retirement, whether there's volatility or not, what should I consider?

ANDY: So we believe that every successful retirement plan should have three key components in them. We think about emergency, we think about protection, and we think about growth. And ultimately, we'll walk our clients through each of these components to create a strategy that's customized to them, to help them think through this type of market volatility.

ALLY: OK, emergency savings. How does that look different or does it as I'm entering or in retirement?

ANDY: So emergency savings, and just to quantify that, that's the cash in the savings account. That's the money on hand. We've heard many times while you're working is three to six months so that if you lost your job or there was a medical emergency, you could continue to pay those bills.

In retirement, that's really going to depend on your own comfort level. Some people may say three to six months is still enough. There may be others out there that say, hey, I want to have one or maybe two years worth of my living expenses set aside. What's most important is that you have a level of emergency money set aside to give you that peace of mind and comfort that you're looking for.

ALLY: So you could handle an emergency, but you could also make sure you're paying those essential expenses. And what do you include there?

ANDY: So when we think about those essential expenses, think about mortgage, your taxes, your groceries, and understanding what is my budget. What are those must haves every single month that I need to afford? And how do I have some cash set aside so that I could potentially pay for those if I needed to?

ALLY: Let's talk about protection. What does that mean in retirement planning?

ANDY: So when we think about protection and retirement planning, we're really thinking about three different aspects of protection. So one is how are you protecting your assets? How do you protect your investments from a market downturn.

We also want to think about how are you protecting your income and making sure that now that you don't have that paycheck every single week coming to you, how do you protect that throughout retirement? And finally, your health. We think about health care and long-term care. How do you build in some level of protection for your health?

ALLY: We all want to be protected. So let's talk about those financial unknowns. As we're thinking about creating an income plan in retirement, especially as that steady paycheck goes away from your job, what should we consider?

ANDY: So there's really two parts to every successful income plan. First is understanding, how much do you need? Like we talked about earlier, what are those essential expenses that you need covered every month? What are the discretionary expenses? Once we know what you need, then we start to think about what do you already have? Many retirees think of their Social Security as a guaranteed source of income throughout retirement.

Some investors have pensions that they were able to get through their employers, which also gives them a guaranteed source of income. You can also learn about annuities and self-funding your own pension ultimately, and adding more guaranteed sources of income.

Once we know what's guaranteed and coming in, the rest is really how much do you need to take out of your portfolio every single month or year. And that's really the variable income. Because while you know you can take as much or as little as you need, it's not guaranteed because it is tied to the market, and ultimately those assets can go up and down over time.

ALLY: So when you say take out, you're talking about the withdrawals?

ANDY: Absolutely. So literally talking about selling something within your account and withdrawing that money out to help pay your bills.

ALLY: And is there a typical percentage people need or should?

ANDY: It's a really good question. Generally speaking, I'm sure many have heard, it's about 4% is what we think of as a sustainable withdrawal rate, meaning as long as we're taking 4% out, assuming the money's invested, that tends to be the general rule.

ALLY: So you talked about annuities. Explain to me how annuities work.

ANDY: And there are so many flavors of annuities out there. And so what I would say is annuities, for the most part, are a way to take risk away from yourself and put that onto an insurance company by way of a contract. Ultimately, there are two phases to annuities. We think about annuities that are growing, so we call accumulation phase. And we think about annuities that are paying out, the distribution phase. Finding the right annuity for you will really depend on where you are and what you need at that point in time.

ALLY: You talked about the flavors, what are the different types of annuities?

ANDY: So again, so many flavors to choose from. At Fidelity, we typically have two. I'll call it the chocolate and vanilla, kind of the plain ones, if you will.

ALLY: We're super exciting.

ANDY: We're super exciting here at Fidelity. We think about income annuities. Income annuities really are there to generate that guaranteed source of income to help you cover those essential expenses or maybe even discretionary expenses over the long term. We also think about tax-deferred annuities. These are annuities that can grow at a fixed rate over a period of time, similar to a CD might where you get a guaranteed rate of return for a set period of time and then have the opportunity to revisit that.

ALLY: How do they pay out?

ANDY: So for an income annuity, it pays out how you want it to. You might set it up and say I want to receive this income every single month. I want to receive it once a year. Tax-deferred annuity, similar to a CD, are going to accumulate over a period of time. And then you have an option to say, I want to take all that money, or we call annuitize it or turn it into an income stream to start giving me that guaranteed income over time.

And then beyond those, again, there are still so many more flavors out there that you can look into if there's a specific need or concern you might have. Ultimately, given the wide range of annuities that exist, it's really important you talk with someone that you trust about this that can help guide you through the pros and cons and what might be most appropriate for you.

ALLY: When do people typically consider opening an income annuity?

ANDY: Yes, and I'll preface it with there's many reasons why somebody might at many different stages of life. But ultimately, when we get to that 5 to 10 years from retirement is when we start seeing people wanting to take less risk. They're closer to that retirement goal. They're closer to achieving that lifelong goal of no longer working. And ultimately, that's where annuities, again, given that you're transferring the risk to the insurance company, can really come into play.

It may be that they want to have more guarantees in the investment component. It may be that they want to start building in that future income stream. But ultimately that's the time frame when we most often see it.

ALLY: I'm sure this answer is endless, as are the flavors of annuities or as are the flavors of ice cream, but anything else we should know?

ANDY: You are correct, but ultimately, the most important thing to know is that annuities can help manage some of the retirement risk you may face, particularly market volatility, particularly longevity. But ultimately, there is no one single solution. There is no one-size-fits-all. It's really important to understand how annuities could or could not fit into a plan based on what you're trying to achieve.

ALLY: You talked about emergency, protection. Now let's talk about growth. How does a retiree or soon-to-be retiree factor growth into their income plan?

ANDY: Into their portfolio. So growth is the thing we're most familiar with. It's what we've been doing if we've been saving for a retirement for the last 5, 10, 30 years. Ultimately we still want to participate in those market ups. We know there will be downs, but we want to participate in the growth of the market. And having a growth component to your portfolio helps you battle things like inflation, which we've heard a lot about recently.
To determine that level of growth that you might want in your portfolio, it really starts with understanding how you've allocated that emergency and protection. For some investors, they may have built in a lot of protection or a lot of emergency and are willing to take on more risk in their portfolio. For others, they may say, I want to have it all in the growth bucket or the majority, and so they may start reducing the level of risk that they take in their portfolio.
Simply put, we know that the cost of something today is going to be more 20 years from now. And so the way we have to factor that in is not everything increases with inflation, but we do know that the markets over the long run traditionally have kept up with inflation or even outpaced it. Again, it's factoring in and understanding how much risk are you willing to take and how do you think through the withdrawals that you'll be taking from your variable component, that growth portfolio, to help supplement the additional income to ultimately combat inflation.
ALLY: All goes back to that importance of a plan.
ANDY: Yes.
ALLY: As people are walking away from this conversation, what do you hope they really take with them?
ANDY: First and foremost, have a plan. If you've already built a plan, great, revisit it. If you haven't built a plan, don't worry. It's never too late. And as you build a plan, really think through those three components. How much do I want to have in that emergency fund? What gives me the peace of mind at night? How much protection do I currently have and should I have more? And ultimately, based on your emergency and your protection, what level of risk am I willing to take in that growth component to help me fight inflation and ultimately participate in the ups of the markets?
ALLY: Excellent. Andy, as always, thank you so much.
ANDY: Ally, thanks for having me.
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