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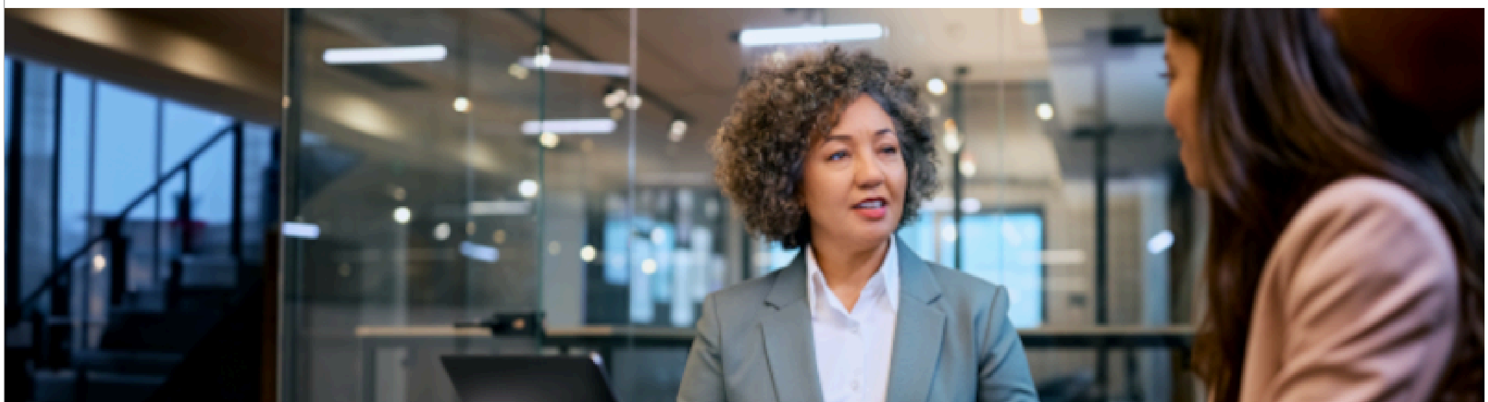
How to keep your retirement income plan on track

A steady source of income may help provide stability.

Fidelity Wealth Management



Key takeaways

> Sticking to an investing plan during retirement can be challenging, especially during periods of market volatility.
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> Having reliable lifetime income to cover essential living expenses can help alleviate concerns about having to withdraw from your savings during a bear market.
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> Annuities come with certain tradeoffs, so it's important to talk to a financial professional who can help create a retirement plan that works for your goals and risk tolerance.

There's no way to predict the direction of the markets in those critical years just before and after you shift from saving to withdrawing from your retirement accounts. That can be an uncomfortable feeling. "For many retirees, when they start to withdraw from their retirement accounts, it can feel more important than ever to be careful about managing risk," says Naveen Malwal, institutional portfolio manager with Strategic Advisers, LLC, the investment manager for many clients who have a Fidelity managed account.

Feedback

When you're feeling uncertain, you may be tempted to sharply shift your asset allocation away from stocks or even pull out of the markets altogether. But that strategy has the potential to backfire and leave you short on cash years down the line. "Investing very conservatively in retirement can lead to less income for retirees, plus they may have a harder time keeping up with inflation," Malwal explains.

Historically, maintaining an allocation of a well-diversified mix of stocks, bonds, and other assets like cash throughout retirement has generated steady growth and income over the long term. But if you think you would struggle to tolerate volatility, one option to consider is combining a diversified, managed account with a fixed lifetime income annuity. With this type of annuity, you give a lump sum of money to an insurance company, and in exchange the insurer pays you a regular stream of income for the rest of your life.

Insights from Fidelity Wealth Management℠

Knowing your essential living expenses are covered by reliable lifetime income can offer a greater sense of security and help prevent you from making an emotional decision to pull money out of the market at the wrong time. The income annuity removes market risk for the portion you invest, and similar to a pension, annuity income can be received monthly and can feel akin to a paycheck you receive in your working years.

However, as with all financial products, income annuities come with certain tradeoffs, including having no or limited access to assets. For these reasons, Fidelity suggests dedicating a portion—not all—of your assets toward an annuity.

Protection against retiring in a bear market

Consider the hypothetical example of one couple, Jordan and Shawna, who retired in early 2008, just as financial markets were experiencing bouts of volatility. The couple met with their financial advisor prior to retirement and calculated that after Social Security and pension income, they would need $40,000 per year to meet their essential living expenses, with annual increases for inflation.

Because they felt uncomfortable about staying invested through periods of market volatility, Jordan and Shawna decided to invest 30% of their savings in an immediate fixed income annuity, and the rest in a diversified, professionally managed account.

Besides lowered stress, the consistent guaranteed income paid to Jordan and Shawna gave them greater comfort to remain invested through times of volatility. In 2008, one of the toughest years on record for stocks, their investment portfolio lost 30%. However, over the following 2 years, the markets rebounded, with their portfolio balance returning to nearly where it had started in 2008. "In scenarios like this, the annuity is supplying a good chunk of the income for the retiree's journey so the portfolio balance is less affected by withdrawals and the investors may feel less stress," explains Malwal. The consistent income allowed Jordan and Shawna to participate in market performance and at times even lower the amount needed from their investment portfolio to meet their essential expenses.

In this educational example, shown in the graphic below, Jordan and Shawna maintained a comfortable and consistent withdrawal rate from their portfolio for the next 15 years, which, in combination with the annuity, allowed them to easily cover their expenses and stay invested through some historically challenging market conditions. "This couple went through the 2008 great financial crisis, 5 bear markets, a global pandemic and recession, and numerous other challenging market events. And they still managed to stay comfortably retired," says Malwal. "This example shows how having a long-term financial plan and sticking with it can help investors in the long run."

Portfolio Advisory Services[SM] Account—Total Return Blended Growth with Income[1] and Annuity

Year	Portfolio starting value	Portfolio return	Year-end balance	Annuity income		Portfolio withdrawal		Total income + withdrawals [2]	Portfolio withdrawal rate [3]
2008	$700.0K	–30.55%	$486.2K	$21.8K	+	$18.2K	=	$40.0K	3.7%
2009	$468.0K	26.42%	$591.6K	$21.8K		$19.0K		$40.8K	3.2%
2010	$572.6K	12.25%	$642.7K	$21.8K		$19.8K		$41.6K	3.1%
2011	$622.9K	–3.03%	$604.1K	$21.8K		$20.6K		$42.4K	3.4%
2012	$583.4K	12.02%	$653.6K	$21.8K		$21.5K		$43.3K	3.3%
2013	$632.1K	15.58%	$730.5K	$21.8K		$22.4K		$44.2K	3.1%
2014	$708.2K	4.34%	$738.9K	$21.8K		$23.2K		$45.9K	3.1%
2015	$715.7K	–1.23%	$706.9K	$21.8K		$24.1K		$45.9K	3.4%
2016	$682.8K	6.06%	$724.1K	$21.8K		$25.1K		$46.9K	3.5%
2017	$699.1K	15.73%	$809.0K	$21.8K		$26.0K		$47.8K	3.2%
2018	$783.0K	–7.27%	$726.1K	$21.8K		$26.9K		$48.8K	3.7%
2019	$699.2K	19.17%	$833.2K	$21.8K		$27.9K		$49.7K	3.4%
2020	$805.3K	14.21%	$919.7K	$21.8K		$28.9K		$50.7K	3.1%
2021	$890.8K	12.41%	$1,001.3K	$21.8K		$29.9K		$51.7K	3.0%
2022	$971.4K	–17.46%	$801.8K	$21.8K		$31.0K		$52.8K	3.9%
2023	$770.8K	14.43%	$882.0K	$21.8K		$32.0K		$53.8K	3.6%
2024	$850.0K	10.89%	$942.6K	$21.8K		$33.1K		$54.9K	3.5%

Personalized portfolios composite average (pre-tax) as of 12/31/2024

1 year	5 years	10 years
10.89%	6.09%	6.06%

Annuity income $370K + **Portfolio withdrawals $430K** = **Total income and withdrawals: $800K**

Past performance is no guarantee of future results. *Diversification and asset allocation do not ensure a profit or guarantee against loss. For informational purposes only. Returns for individual clients will vary.*

Based on the performance of a composite of Fidelity Wealth Services accounts managed using the Growth with Income asset allocation, the total return investment approach, and blended investment universe. Please be aware that the return information differs, perhaps significantly, for an account that is not managed using the same configuration of strategy characteristics as the composite shown above. Please speak to your Fidelity representative for information about the performance of other strategy characteristics available through the program. Performance shown is pre-tax, and the assessment of taxes will reduce returns. Please see disclosures for additional important information regarding performance returns.

Additional Important Annuity Income Assumptions. The annuity payout rate is based on rates existing on 1/10/2008 from among immediate fixed income annuities distributed by Fidelity Insurance Agency, Inc. Annuity payout rates are subject to change, and such an annuity purchased today may provide significantly less or more income than is depicted in this illustration. When included with a joint-life fixed income annuity, a cash refund feature guarantees upon the death of the last surviving annuitant beneficiaries will be refunded any difference between the original annuity purchase amount and the annuity payments already received.

Reduced potential for asset growth

By purchasing an income annuity, you forgo the option to keep those assets in the market. You also generally have limited access to the money, even if your situation or income needs change. However, some fixed income annuities offer a guaranteed lifetime withdrawal benefit which provides access to your investment. Your income may be lower for the tradeoff of access.

In addition, the payment from a fixed income annuity does not change which may later be impacted by inflation. One potential way to reduce this risk is to select a cost-of-living adjustment feature, which can increase payments each year by a certain percentage. However, this will generally reduce the amount of your initial annuity payment.

Reduced potential for managing retirement income taxes

Depending on how you fund your income annuity, it is generally taxed at the retiree's ordinary income tax rate for a portion of the investment. While some withdrawals from investment accounts may also be taxed at ordinary income tax rates, others may benefit from favorable tax treatment, such as gains on investments held for more than a year, which are generally taxed at the lower long-term capital gains rate, and income from municipal bonds, which is often tax-free. "In our taxable managed accounts, we use tax-efficient investments, tax-loss harvesting, and other tax-smart investing techniques[4] to help to reduce your overall tax liability," explains Malwal.

Fitting annuities into your estate plan

An income annuity can help alleviate concerns about outliving your savings. But many investors also hope to pass a significant part of their assets to their heirs someday. Depending on the type of annuity you choose, your heirs may still receive some benefit, especially if you pass sooner than expected. However, they will generally receive less than they would if the money had stayed in the market.

Talk to a professional

In the end, no retirement investing plan can be successful if it isn't suited to your risk tolerance level. More important than short-term movement of the market is your ability to stick to your plan. A financial professional can help you assess whether or how you might benefit from annuitizing a portion of your savings. "Finding that balance between growth and greater peace of mind can be a challenge during retirement," says Malwal. "But with a plan in place and a disciplined approach, retirees are likely to live through many periods of market volatility and still maintain a comfortable retirement."

Living in retirement | Fixed income, bonds, CDs | Saving for retirement | Stocks | Using technical analysis

1. The Growth with Income strategy targets a long-term asset allocation of 42% Domestic Stock, 18% Foreign Stock, 35% Bond, 5% Short-Term/Money Market. Return information shown is based on a composite of accounts managed with the same strategy characteristics assuming an initial investment of $700,000. See below for information about the composite performance shown and the assumptions used in our performance calculations.

2. Total annuity income and portfolio withdrawals are initiated at $40,000 for calendar year 2008. The total amount is inflated at 2% each year thereafter, with the increase coming entirely from the Personalized Portfolio account withdrawals. Annuity income remains constant throughout. Portfolio withdrawals are assumed to be taken at year-end.

3. The withdrawal rate being used is calculated by taking the portfolio withdrawal column and dividing it into the Year-End Balance amount for that year.

4. Tax-smart (i.e., tax-sensitive) investing techniques, including tax-loss harvesting, are applied in managing certain taxable accounts on a limited basis, at the discretion of the portfolio manager, primarily with respect to determining when assets in a client's account should be bought or sold. Assets contributed may be sold for a taxable gain or loss at any time. There are no guarantees as to the effectiveness of the tax-smart investing techniques applied in serving to reduce or minimize a client's overall tax liabilities, or as to the tax results that may be generated by a given transaction.

Information about the calculation of account and composite returns. Returns for periods of one year or less in duration are reported cumulative. Returns for periods greater than one year may be reported on either a cumulative or average annual basis. Calendar year returns reflect the cumulative rates of return for the 12-month period from January 1 to December 31, inclusively, of the year indicated. Reported rates of return utilize a time-weighted calculation, which vastly reduces the impact of cash flows. Returns shown assume reinvestment of interest, dividends, and capital gains distributions. Assets valued in U.S. dollars. Performance for accounts managed without tax-smart investing techniques begins when assets are available in the account. Rates of return shown are net of the actual investment advisory fees paid for each account, and are net of any applicable fee credits, any underlying fund's own management fees and operating expenses, and for certain Fidelity Wealth Services accounts the fees attributable to separately managed account sleeves. Performance information presented for an investment advisory program offered by Fidelity Personal Workplace Advisors LLC ("FPWA") includes performance for accounts enrolled in legacy programs previously offered and managed by FPWA's affiliate, Strategic Advisers LLC, for periods prior to July 2018. Fees for these legacy programs differ from current fee schedules for FPWA's programs, and fees for accounts enrolled in those legacy programs may have been higher or lower than FPWA's current fees. Fee structures and the services offered have changed over time. Please consult a Fidelity financial advisor or the applicable investment advisory program's current Program Fundamentals for current fee information. Additional information about our methodology for calculating pre- and after-tax performance return information is available at Fidelity.com/information in a document titled "About Performance."

Information about composite returns. The rates of return featured for accounts managed to a long-term asset allocation represent a composite of accounts managed with the same long-term asset allocation, investment approach and investment universe as applicable; rates of return featured for accounts managed with a single asset class strategy represent a composite of accounts managed to the applicable strategy. Accounts included in the composite utilize at time-weighted calculation, which vastly reduces the impact of cash flows. Composites are asset-weighted. An asset-weighted methodology takes into account the differing sizes of client accounts (i.e., considers accounts proportionately). Larger accounts may, by percentage, pay lower investment advisory fees than smaller accounts, thereby decreasing the investment advisory fee applicable to the composite and increasing the composite's net-of-fee performance. Composites set minimum eligibility criteria for inclusion. Accounts with less than one full calendar month of returns and accounts subject to significant investment restrictions are excluded from composites. Accounts with a do-not-trade restriction are removed from the composite once the restriction has been applied to the account for thirty days. For periods prior to October 1, 2022, composite inclusion required a minimum investment level that reflected product-relative investment requirements. Effective October 1, 2022, product composites will reflect all accounts for which we produce a rate of return and that meet the aforementioned criteria. Non-fee paying accounts, if included in composite, will increase the net-of-fee performance. Certain products, like Fidelity Go, offer investment services where accounts under a certain asset level do not incur investment advisory fees. Employees do not incur investment advisory fees for certain products.