Fidelity Investor's Quarterly℠
Financial guidance for Fidelity customers

Tap Into Strategies to Help Make Your Retirement Income Last

BY Lisa Predella

What a difference a year can make. The Dow Jones Industrial Index was up 19% as of December 31, 2009—its best year since 2003. But, despite this encouraging news, many retirees still have a way to go in order to make up the investment losses they suffered during the 2008 market meltdown.

So, what can you do if you now have less in retirement savings than you planned? Fortunately, there are plenty of strategies you can use to help minimize the hit. Whether you reposition your portfolio, adjust your withdrawal strategy, or make some lifestyle changes, any action you take now may improve your long-term financial picture.

"It's important that you take action immediately to make the most of your retirement," says Chris McDermott, a CERTIFIED FINANCIAL PLANNER™ practitioner and senior vice president of Investor Education, Retirement, and Financial Planning at Fidelity Investments. "First, make time to fully understand where you stand financially and what you may need to do to get back on track. The steps you take now can have a significant impact on the type of lifestyle you lead in retirement and you want to make sure that you have an income plan that will match your plans *and* last a lifetime."

The following action steps may help you put your best foot forward when creating or revisiting your retirement income plan.

Action #1—Reconsider your portfolio strategy

Retirees working to reposition their portfolios should address two concerns, says Kevin Meehan, a CERTIFIED FINANCIAL PLANNER™ practitioner with Summit Wealth Advisors in Itasca, Ill. "Make up lost account value due to the stock market decline, and replace income that has dropped due to the huge hit many retirees have taken with short-term interest rates."

Though the past year's market volatility may have you wary, "You don't want to give up on equities completely, or you'll lose your inflation protection," says Peter Jalbert, principal of Crossroads Capital Management LLC in Marblehead, Mass. At the same time, you shouldn't try to make up your lost account value by pouring all your money back into the market at once. "That's like chasing a train that has already left the station," Meehan says.

For Dan Fowler, a 66-year-old retiree from Bainbridge Island, Wash., a moderate portfolio strategy shift was better. "After losing 25% in the downturn, I wanted to be a little more conservative, so I shifted my portfolio from 50% equity/50% fixed income to 40% equity/60% fixed income." Because he didn't overreact, Fowler says his portfolio has now recovered about 10%.

Investors who want to rebalance a portfolio should be mindful of their short- and long-term goals. For example, Jalbert says, “Any money you’ll need to spend within the next year or two should stay fairly liquid—perhaps in cash.” For needs likely to come up between two and five years down the road, investors should consider fixed income products such as bonds, which may have somewhat greater earning potential but historically haven’t fluctuated as much in value as equities.

Finally, for goals or needs at least five to 10 years down the road, investors who can tolerate the risks of the stock market might consider diversifying into some equities to give their portfolios some inflation protection. And, for investors seeking guaranteed income, he says they may want to consider putting some of their assets into an annuity product.

Visit Fidelity.com/portfolioreview* to identify an appropriate asset allocation to help meet your income needs in retirement, and to select investments to help realign your portfolio.

Action #2—Make lifestyle changes to get more out of your retirement

Since one of the best ways to stretch retirement income is to spend less of it each year, here are some lifestyle changes that may help pare back spending.

Work part time

Though most people don’t envision working as part of retirement, it generally has more of an upside than a downside. “Working even a few years of your retirement could have huge benefits,” says John E. Nelson, co-author of *What Color Is Your Parachute? For Retirement*. “You give your savings more time to recover from losses, increase your Social Security and/or pension benefits each year you delay collecting beyond your full retirement age, and keep social connections that are hard to maintain outside the office.”

Part-time work might also be a prudent way cover essential expenses with earned income, help you withdraw less from assets, and preserve more of your portfolio, especially if it suffered a hit in the downturn. “Trying to make up a $250,000 loss in your savings is pretty daunting. But earning a little income — say $10,000 a year — to ease the strain on your savings, is a way of breaking that challenge into more manageable chunks,” Nelson says.

How can a retiree turn working in retirement into something positive, rather than “taboo”? “Make it something you enjoy,” says Meehan, “like working at a local golf course.” Nelson suggests that with “some hard research on your 30-plus years of work experience, you can identify what you loved about your job and what you have as strengths and skills.” Then try to create a unique part-time or contract position that exploits those qualities.

Or, try to negotiate a part-time job based on what the market demands, by looking at the types of skills either your previous employer or another company might need. Many employers still want to hire older workers. For a list of the best employers for people over age 50, visit www.aarp.org.

Consider delaying Social Security

Social Security is a guaranteed source of income in retirement—and one you worked hard for. So the decision of when to start taking monthly payments is an important one. For each year that you delay taking Social Security (up to age 70), you could receive up to 8% more in future monthly payments.** Take the time to consider how Social Security will fit into your overall income plan so that you can make the right decision for you.

Enjoy simpler pleasures

“After the market downturn, we cut way back on travel to save money,” says Fowler. “It’s actually been a relief to stay home and have our children visit, rather than the other way around.”

What’s more, Fowler says, “We’re having people over and cooking nice dinners instead of going out, which is less expensive and healthier.” And, he adds, “We’re exploring more of the island we live on and getting involved in the community. It’s been a different way of life for us, but really terrific.”

Push back on “dependent dependents”

Many retirees who still give money to their adult children need to “push their kids away from their finances,” says Meehan. “It’s tough love, but you can’t let your kids depreciate your net worth — especially when they have time to work and manage the consequences of their financial decisions…but you don’t.”

Take better care of your health

“One of the best ways to save money on health care is to take better care of yourself,” says Meehan. Doing so has a double advantage: the potential to reduce extra health care costs and possibly feeling better, thanks to the healthy lifestyle. Another option is to consider supplemental insurance programs that offer extra benefits and might help reduce out-of-pocket expenses for health care. To compare plan costs, visit www.aarp.org.

Action #3—Withdraw wisely

How you withdraw money in retirement is a critical factor in how long your money will last.

“Withdrawing money wisely and thoughtfully is a key component to achieving financial success in retirement and one that should be taken seriously,” McDermott says. “The good news is you have absolute control over how much you withdraw as well as the sustainability of your assets.”

For an investor thinking of adjusting his or her retirement income withdrawal strategy, or creating a strategy for the first time, Meehan says under current conditions, it’s better to be conservative with withdrawals. Reducing expenses may help alleviate the need to sell investments in a down market and may leave you better positioned to reap the benefits of stronger returns when markets recover.

“Take what you need to pay your essential expenses, but be flexible and conservative with your discretionary spending,” Meehan says. “Try to budget the way you did when you were working — spend a little more in the good times, but cut back when the economy gets tough.”

Still, because certain expenses will likely go up with the cost of living each year (e.g., insurance and health care), Jalbert suggests paying for these costs with any inflation-indexed payments you receive, like Social Security and/or pension benefits.

“I started out taking ad hoc withdrawals, but then settled on a regular amount — no more than 5% a year,” Fowler says. “That actually works well for me because it’s like living on a predictable paycheck,” which, he says, helps keep his spending in check.

How Fidelity Can Help

Fidelity can help you create a retirement income strategy to match your goals. Visit the *Retirement Income Planner*[1] to answer a few key questions and get started.

Spend MRDs as needed

Once an investor turns age 70½, the IRS requires minimum required distributions (MRDs) from retirement plans.[2] But, "Just because you have to take the money out, doesn't mean you have to spend it," says Jalbert. Instead, Jalbert suggests investors try to reinvest whatever's left after paying income taxes on the distributions, to attempt to earn more income.[3]

Investors can set up an automatic withdrawal program, which calculates your MRD each year, and has those distributions sent to a Fidelity® mySmart Cash Account,®[4] where the money will earn interest, or to a Fidelity Brokerage® account where the funds can be reinvested. Go to www.fidelity.com/autowithd to enroll in automatic withdrawals online for MRDs in retirement accounts.

As Meehan points out, it's all about looking forward rather than backward. "Spend less time worrying about what you've lost, and more time reflecting on what you can do with the money you've got."

Whether you need help generating more income, deciding on a withdrawal strategy, determining when to take Social Security, or with other important financial decisions, Fidelity can help. All of the support you need is now in one convenient location — in the *Getting Ready to Retire* and *Living in Retirement* sections on Fidelity.com.

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1. Retirement Income Planner is an educational tool offered for use by Strategic Advisers, Inc., a registered investment adviser and a Fidelity Investments company.
2. Make sure you understand the tax consequences of any withdrawal or distribution before you initiate one.
3. You may want to consult your tax adviser about your situation.
4. The mySmartCash Account is a brokerage account designed to meet your cash management needs. It is not intended to serve as your main account for securities trading. Customers interested in securities trading should consider a Fidelity Account.® You can also link these two accounts for seamless management of your finances.

Indices are unmanaged and you cannot invest directly in an index.

**Portfolio Review is an educational tool offered for use through Fidelity Brokerage Services LLC.*

*** Note: Once you reach age 70, these increases stop, so there is no benefit for you to wait any longer.*

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Investing involves risk, including the risk of loss.