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CONFIDENT CONVERSATIONS® on Retirement: Innovative Approaches to Tailoring Your Retirement Income Plan

Kim Zook: Welcome to T. Rowe Price's CONFIDENT CONVERSATIONS® on Retirement. My name is Kim Zook, and I'm excited to be your host. As a person who is naturally curious, I've dedicated my career to lifelong learning and asking the right questions to help people successfully prepare for retirement. My colleagues joining me today are financial professionals who also help people in their retirement journey, whether they are planning for retirement or already in it.

On today's episode, we'll explore a critical subject for retirees: the latest research and innovative approaches to tailoring your retirement income needs, solutions and withdrawal strategies. With me today for the conversation to discuss the growing frontier of retirement income needs are CERTIFIED FINANCIAL PLANNER™ professional, Roger Young, and Global Retirement Strategist, Jessica Sclafani. Welcome to the show, Roger and Jessica.

Roger Young: Thanks so much.

Jessica Sclafani: Delighted to be here.

Kim Zook: Well, I'm really glad you're here. And I'm going to jump right in for our conversation. So, Jessica, I'd like to start with you. Can you tell us a bit about your experience as a Global Retirement Strategist and the growing relevance of retirement income for you and your team?

Jessica Sclafani: Sure thing, Kim. So in my role, I conduct research that supports employers who offer retirement plans. My research touches on the types of investments that are offered in these plans, and the supporting tools and services that help employees save for retirement. Whether I'm working with employers that offer retirement plans in the U.S., like a 401(k) plan, that probably sounds familiar, or Australian super funds, there's been a growing interest and desire to consider how these retirement plans can support individuals, not only in the savings phase, but also in the spending phase. In other words, we feel like we have a pretty good handle on how to help people save for retirement, but then the big question is what happens when they actually enter retirement?

So I think for today we'll focus on the U.S. And I know it's not a surprise when I tell you that we have an aging work population. And employers are increasingly cognizant of this demographic shift, and many are turning their attention to how their retirement plans can support individuals, again as they move from that savings phase, when we encourage everyone to save as much as they can afford and invest in a professionally managed, diversified portfolio, into the spendings phase, when all of the sudden, folks have really different needs and preferences and likely require a more personalized investment solution. So that was a mouthful, Kim, but I'm excited to be here and get into the research with you and Roger today.

Kim Zook: Excellent. I think so much of my career we focus so much on, to your point about the accumulation, I'm really excited to go deeper, especially for our audience. Roger, I'm going to shift to you. Would you like to talk a little bit about your role as a Thought Leadership Director?

Roger Young: Sure. So at T. Rowe Price, we serve people both in workplace retirement plans, like 401(k)s, like Jessica just described. And also, with people who have individual accounts, like IRAs, and that's more of the area where I'm specializing. So, in our business, serving individuals directly, we're increasingly focused on financial planning advice beyond investments. And so my role is in research and analysis on financial planning. And certainly retirement income is one aspect where it's hardly a settled area in the field. There's still a lot we don't know. So, certainly ripe for a lot of discussion.

Kim Zook: Excellent. You know, I come from a family of entrepreneurs and relatives that work in employer sponsored plans, so there's a lot of mix of people with IRAs and 401(k)s. And I think the audience is probably in very similar boat with rollovers, etc. So what I'd like to do is talk more about T. Rowe Price’s involvement in journey and retirement income strategy and solutions. Because Roger, to your point, and Jessica, it could be a workplace plan or it could be an IRA. So, Jessica, let's start with you.

Jessica Sclafani: Sure thing. So I'll start by just saying that, you know, we have a favorite phrase around here, and it might be a little bit corny, but I think it's genuine. And that is retirement is in our DNA. For so many of us at T. Rowe Price, including myself, and I can see both of you nodding your head vigorously here. Retirement is all we think about all day, every day. Over the past several years, we have devoted more research and resources to building solutions that, again, not only help people save for retirement, but then also help them spend down those hard-earned savings while in retirement. So, you asked about our journey, some of our solutions and our strategies. In 2017, we launched a managed payout product that helps create a paycheck like experience for retirees. More recently, we created another retirement income solution that pairs that managed payout experience with a deferred income annuity that provides a stream of guaranteed income later in retirement.

Roger Young: When you talk about the journey that we've had as a company, a big part of our journey also within retirement income is research on things like tax efficiency, as it relates to getting that paycheck into retirement. So, it's an area where it's important to provide personalized strategies to retirees. So our focus has shifted a bit. And so we want to make sure we can combine someone's Social Security claiming strategy with tax efficient plans for taking money out of their different accounts. And there's a lot to that.

Kim Zook: Thanks, Roger. So, shifting over back to you, Jessica. Workplace retirement plans have come a long way in looking out for their employees, even after they leave the company and/ or retire. Can you tell us in what ways these plans have changed over the years?

Jessica Sclafani: Absolutely. And I know I'm in like-minded company here when I share that this is really an exciting time to be working with employers who sponsor retirement plans. We see more and more employers are now considering how they can reposition their 401(k) plans to not only help people save for retirement, so to set themselves up for success in retirement, but then, also to help them use or draw down or spend those savings then while in retirement. We've spent so much time focused on how to help people save. We also need to spend some time and attention now in terms of helping them how to spend.

Many employers believe their own employees benefit from ongoing fiduciary oversight and trust that the company's retirement plan is managed with the participant's best interests in mind. Also, in many cases, but certainly not in all, the investments offered inside of an employer sponsored retirement plan, like a 401(k), can be less expensive than what an individual could access in an IRA. And, Roger, I'm looking at you, you might have some more insight to add there.

Roger Young: Sure. Yeah. And I think it's certainly great that employer-based plans have made a lot of progress. But our listeners should know there are pros and cons of both employer-based plans and individual accounts, like IRAs. So, you mentioned, you know, some good ones in terms of the pro for a plan that it can be less expensive and there's that fiduciary duty. And, you know, those employer-based plans, generally offer higher contribution limits. So, they help people save automatically, even before the money comes out, you see it in a paycheck. So they're very good for building that foundation towards retirement. Now on the flip side, historically, you know, they can be less flexible than IRA. So with the IRA you can have a very wide range of investment options. They can also be very flexible in how you take your money out. So there can still be a lot of restrictions and it varies, plan by plan, there can be restrictions on how you take out money. Like, you might have to take it out, you know, evenly from both a Roth and a traditional part of your account, or evenly across your investments, and you have a lot more flexibility in an IRA. So, I mean, it's great that this is something our industry is working on. But, if you find that your workplace plan isn't as flexible as you'd like in retirement, there is that other option of individual accounts.

Kim Zook: So, Jessica, how does the process of preparing for income in retirement differ from the process of saving? And I, I really want to go deeper on this because it is a very different mindset. I've seen it with my own parents and some of my friends and relatives, that it's been drilled into their brain for 30 years to "save, save, save." And some can be reluctant to spend, or don't know what to do. So I'd love for you to go a little deeper.

Jessica Sclafani: Sure thing and I think that your story, there is one that we hear and we encounter all the time. So, let's start with the saving piece. I don't want to oversimplify it, but I do think it's fair to say that saving for retirement, especially within the context of an employer sponsored retirement plan, is relatively straightforward. Again, it's about saving as much as one can afford to and investing those savings in a well-diversified portfolio so that those savings can benefit from the wonders of compound returns.

In the savings phase, you and I probably aren't that different in terms of our goals. However, spending in retirement is where it becomes more complex. Now I have to think about questions like, "well, how much can I afford to spend?," "how long will my savings last me?," "do I want to spend all of my savings, or do I want to leave something behind?" You can see how chances are that once you and I move to that savings phase, our answers to these questions will start to be different and therefore so will our goals and preferences. This is something that we've been exploring in our research. And what we learned is that when folks between the ages of 40 and 85 think about living in retirement, their primary concerns are: to maintain their quality of life, not run out of money, and to cover their monthly expenses. So it's research like this that has helped inform our discussions with employers that are looking to now help retired employees.

First, we encourage employers to make sure their plans offer retirees flexible access to their savings. And Roger, I heard you use the word flexible a few times, and I think that's key. Something to think about here, as an example, is does the plan offer installment payments? From there, we work with employers to identify and implement retirement income solutions or products that support retirees in converting that 401(k)-account balance into a predictable stream of income and retirement; a lot like that familiar and much-loved paycheck that we enjoy and look forward to in our working years. I'll also just mention that from our research, we see it's very evident that retirees' needs are diverse and to meet the needs of as many individuals as possible, employers will likely need to offer a selection or an array of retirement income solutions, perhaps a non-guaranteed product and a guaranteed product, as well as access to tools and advice.

Kim Zook: So Jessica, that's great. And so, from just for our listeners, an installment payment, would that be similar to the comparison you just made about that much loved paycheck from their plan, like creating their own paycheck from their retirement?

Jessica Sclafani: Yes. And thank you Kim, for asking the question. That's exactly right. I mean, think about it. When you retire, hopefully you feel really proud looking at how much you were able to save across your working years. But then how do you take that pile of money, right, and convert it into a stream of income in retirement? Things like systematic withdrawal payments, installment payments, they can help in recreating that paycheck like experience.

Kim Zook: Perfect. Because I think about the audience, it's like, "how do I meet those monthly bills?" Right.

Jessica Sclafani: Exactly.

Kim Zook: And to create and replicate something that we're very used to and accustomed to. So that's great. Thanks for that. So, you've covered a lot of ground. We know there's a lot of income solutions out there. How should employers or individuals think about comparing these?

Jessica Sclafani: Okay, Kim that's a big question. So we've had many smart people around the firm thinking about this and analyzing it over the past several years, maybe even decades. what we've landed on is a really helpful starting place is to just accept that everything is about tradeoffs in retirement. That's true for both people and retirement income products. So maybe we'll just try to make this fun. And I'm going to ask you and Roger a question.

Kim Zook: Okay.

Jessica Sclafani: And I promise you, this is not a trick question. Ready for it?

Kim Zook: I wish you could all see her smile in the audience. We are ready.

Jessica Sclafani: Okay. Here it is. Would you like to have guaranteed income in retirement?

Roger Young: Hm. Tricky. Yes.

Kim Zook: Yes, I am a double yes. Because I believe that that is something in the way I think about it. Now, this isn't advice to the audience, but it's a double yes for me.

Jessica Sclafani: So we've got a double yes and a strong yes from Roger.

Roger Young: Just a single yes. I feel small, but yes.

Kim Zook: I've had more coffee than Roger, probably. So tell us more just for our audience, though. Tell us more about that. Educate us.

Jessica Sclafani: Okay. So it's not surprising. And that's what I meant. It's not a trick question. I'm thinking many of you listening to the podcast today, would you like guaranteed income in retirement? Sure, yeah, I would, I'd love guaranteed income in retirement. Sounds good to me, too. But we know that guaranteed income isn't free. Everything has a cost. Which brings us back to our concept of tradeoffs. Right?

Kim Zook: Okay. Okay.

Jessica Sclafani: So when we did research looking at and exploring these types of tradeoffs, what we learned was that people were willing to give up about 6% of their annual income in retirement just to have the word "guaranteed income." That phrase was worth 6% of their annual income in retirement.

Roger Young: Hm…now, now there you might not have me. Yeah. With six, you can do a lot with that 6%.

Jessica Sclafani: That's true. And that's what's so fascinating about this research here, is that there really is no right or wrong answer. It's behavioral. That 6% might give someone a real peace of mind, and that's worth it to them. Even though, Roger, you've made it clear it's not worth it to you, which is okay.

Kim Zook: But for me, Jessica, with the double yes, maybe I can sleep better at night. And this is that intersection of the psychology of money, which that's not this episode, but it is important for what you're teaching the audience and what I think you're about to cover next. But what I really respect about Roger, as a thought leader, is that he's representing, I think, probably the best, the "one yes" and I'm saying, all logic aside, I know myself and I know my risk tolerance. So for me, I might be willing. So your research, I might be in that cohort of your research that's willing to spend a little more to sleep at night. And it's different for everyone. Is that what I'm hearing?

Jessica Sclafani: That's exactly right.

Kim Zook: Okay. Got it.

Jessica Sclafani: There is no right or wrong answer here. It's all about individual's preferences and risk tolerances. So if we come back to this concept of tradeoffs, we believe that in retirement we are all going to have to make compromises, both as people and then the products that we use, to achieve the goals or preferences that are most important to us as individuals.

So, you know, Kim, what's important to you might not be most important to Roger, and I could have a totally different view on that as well. So understanding this wide variety of preferences that exist among retirees, we created a framework to quantify these types of compromise, or tradeoffs, that again, people and products, make in retirement.

The framework consists of five key attributes, so we call it our Five-Dimensional Framework for understanding retirement income needs and products. And each of these five attributes are mutually exclusive and we believe fully characterize the in-retirement experience.

Kim Zook: So Jessica, I love a framework. And I think for our audience you talked about tradeoffs. So before we jump to the I want to ask you about the five attributes. But before we do, I want our audience to me to understand, if I'm thinking about this right. Tradeoffs is like a pros and cons list, right? So if Kim can't sleep at night, there may be a tradeoff, if I want that guarantee, there's going to be a cost to that. Or flipside, maybe someone doesn't want a guarantee they want access. So, what I want the audience to know is what I love about this research-oriented framework, you're going to talk about, and you walk us through those five key attributes, is it similar to that? Meaning like those five dimensions, there's pros and cons, and we're trying to help people understand those tradeoffs?

Jessica Sclafani: So exactly it's really all about the tradeoffs that occur between those five attributes.

Kim Zook: Gotcha. Okay.

Jessica Sclafani: So, if you think if you want to see performance increase or you want to do better on one of your five attributes…

Kim Zook: Yes

Jessica Sclafani: …that means that you're going to take a hit on at least one of the other four attributes.

Kim Zook: Got it. Excellent.

Jessica Sclafani: So, to gain something, you have to give up a little bit of something on one of the other attributes.

Kim Zook: Excellent. Okay. Let's hear about those five key attributes.

Jessica Sclafani: Great. And I'll, I'll, I'll start off by saying they're a little wonky. We're just going to we're going to acknowledge that from the outset. But hopefully we can still have a good conversation about them.

Kim Zook: You said the term wonky. What do you mean by wonky?

Jessica Sclafani: Oh good question Kim. Calling me out on my word choice there. So wonky. To me, that means really technical. Really deep in the weeds. And as a researcher, admittedly, that is where I spend most of my time: deep in the weeds. But I probably rely on the word wonky because I want to recognize that not everyone spends their time deep in the weeds and, you know, up to their elbows in research.

Kim Zook: Got it. Excellent.

Jessica Sclafani: So our first attribute is longevity risk hedge. What we're trying to get at with this attribute is what is my planning horizon or stated differently, how long will my savings last? So that's your longevity risk hedge.

Our second attribute is level of payments. Here we ask what will the annual income for my savings look like? You could also think about it as the yield on your investments. So that's you know, we spent a lot of time talking about that paycheck.

Kim Zook: Yes. Yes.

Jessica Sclafani: So what is the amount of that paycheck? That's your level of payment.

Kim Zook: Excellent.

Jessica Sclafani: Our third attribute is volatility of payments. So now we're not thinking about the value of the payments…

Kim Zook: Okay.

Jessica Sclafani: …we're concerned with how much that amount could change over time. So how much that payment could move around in terms of value.

Kim Zook: Oh okay. So, if someone doesn't like it moving around this is a this is a really key attribute of the framework.

Jessica Sclafani: Exactly. Though I'm going to say all five are really key…

[ALL LAUGH]

Kim Zook: No, I appreciate that you're the expert.

Roger Young: You don't love any of these children more than the others.

Jessica Sclafani: Absolutely.

Kim Zook: And that's important I appreciate that. So how about the fourth?

Jessica Sclafani: Okay. The fourth one is liquidity of balance. Liquidity is probably a term that we're pretty comfortable with. Here we want to understand how much of my retirement savings will I have access to if I need to use them.

And that brings us to our fifth and final attribute, which is probably the scariest sounding one.

Kim Zook: Oh.

Jessica Sclafani: Yeah. It's called unexpected balance depletion. Admittedly, that's not a phrase that we all use in in daily life, but I think it actually has a pretty intuitive meaning. So when we say unexpected balance depletion, if I restate that as a question, what we're trying to get at is how high is the risk of my money running out earlier than I planned it to?

Kim Zook: Right. And so, so when I heard the term unexpected balance depletion, I understand like in I think in financial lingo, what that means. But it is scary, but this is also real life. And based on the research you've done and Roger, the experience as a financial professional, we wouldn't have that in the framework if it wasn't a real consideration. And so I just think to demystify retirement income, it's important that we cover all five possibilities. So thank you, and maybe you know the audience, don't be afraid by balance depletion I want you all to think about this is a great trade off because I'm going to ask, Roger to talk about like, more on the references to tradeoffs. But it's important that we cover the positives, and the negatives and the what ifs.

Jessica Sclafani: Totally fair Kim and thank you for that. I'm guessing that many of our listeners will go to bed tonight dreaming about unexpected balance depletion. No, probably not, but demystify, that's a great word, Kim. Unexpected balance depletion. It's about your tolerance for market risk.

Kim Zook: That's right. Okay. Thank you so much.

Roger Young: Yeah. You know, the clients we work with, they might not use the same terms that you did, but I don't think the concepts are wonky. You know, they're real things to people, you know, don't want to run out of money.

Kim Zook: That's right. That’s exactly right.

Roger Young: And so, the preferences, you know, among those are really key. And I will get a little wonky here. You know, a lot of researchers always seem puzzled that more people don't use annuities So there are people who, you know, for whatever reason, don't follow that expected behavior that, that these researchers have. So I do like how the framework you described, Jessica, recognizes those and that, you know, people make different choices.

Jessica Sclafani: Bingo. Great point Roger. And let's use this as an opportunity to think about annuities. And we'll apply our Five-Dimensional Framework to the concept of annuities. So I think we all understand annuities offer guaranteed income. This means that they score well in terms of longevity risk hedge or the attribute that refers to planning horizon. So again remember our Five-Dimensional Framework, it has the five attributes and we can score different retirement income products according to each of these five attributes. Annuities offer guaranteed income. They score well on longevity risk hedge - fabulous. But now we have to come back to our tradeoffs. So, we have to ask ourselves “what did we sacrifice to achieve that guarantee.” Well we're sacrificing on liquidity for sure because we need to send that money to the insurance company, who will in turn provide the guarantee. We won't have access to those funds anymore. We're also probably sacrificing on level of payments or the amount of income or that paycheck that we talked about, because we have to secure that guarantee. We have to pay for that guarantee, that benefit. So again, you know, when we talk about tradeoffs and people making different choices for some people those compromises will be worth it. But for others they won't. And that's all okay.

Kim Zook: So in practical terms, when we hear the word liquidity that could play out, once you decide if someone is going to that case study is going to sleep better at night with the guarantee of annuity, so they have peace of mind, the trade off in liquidity is if something pops up a big expense, they can't just access that money, right? Is that the way to think about it?

Jessica Sclafani: Exactly right.

Kim Zook: Okay okay.

Jessica Sclafani: And you have to think, well, is that a tradeoff I'm willing to make?

Kim Zook: Right. Okay, that's really helpful. What actions have employers taken to enhance retirement income solutions?

Jessica Sclafani: We're seeing many of the companies that we partner with engaging with their financial service providers. So for example, firms like T. Rowe Price, to really understand the landscape of retirement income products and services that can be offered inside of an employer sponsored retirement plan. As more employers are looking to make their retirement plans, and I'm going to use air quotes here, “more retiree friendly” as opposed to solely focusing on that savings phase, they’re also encouraging further product innovation.

Kim Zook: And that's really good to hear. You know, I want to hear of these solutions, what are the most commonly offered that you're seeing in employer sponsored plans?

Jessica Sclafani: Well, I have to say it's still early days in terms of 401(k) plans offering retirement income solutions. Don't forget that for the past several decades, most employers were very happy for their retired employees to take their savings out of the plan at retirement. Now that we're beginning to see more employers looking to support retired employees’ needs, we're starting to see more plans offering retirement income solutions or tools. Today, more employer sponsored retirement plans are structured so that retired employees can regularly access their savings, instead of only having a one-time full account balance distribution. That's kind of a fancy way of saying a one-time lump sum rollover, which would typically go to an IRA.

Kim Zook: Oh, so they're embracing more of like offering that paycheck out of the plan versus having the employee go to the IRA.

Jessica Sclafani: Exactly.

Kim Zook: Okay.

Jessica Sclafani: Couldn't have said it better myself, thank you. I'll just add to, with interest rates on the rise, we see stable value, which is most commonly offered in retirement plans as a capital preservation option, could also support retired participants. So that's a conversation we've been having.

We also observe more retirement plans considering how their target date solution can incorporate retirement income, whether it's through a managed payout, like ours, or by including an annuity allocation.

I'd also point out that more 401(k) plans now offer a managed account service, compared to 5 to 10 years ago. So what is a managed account service right? It's probably can I can see you're thinking about, asking me for clarification there. So a managed account service offers individuals a more personalized asset allocation than what they could get from a traditional target date solution and typically allows individuals to provide data about their financial lives beyond what they've saved in their company's retirement plan. So a managed account solution offered inside of a DC plan, and it can be a little bit more personalized than a target date.

Kim Zook: And you did read in my mind. So thank you for doing that clarification. And part of that is I think about the audience as we're recording this, looking at each other, the three of us, I just think it's really great to hear, for our listeners and as somebody that's been in this industry for 29 years, that employers are evolving their plan capabilities and not just accommodate the needs of their employees, but really looking out for them to have more options and flexibility.

So what we have covered so far is retirement income solutions development for investors in employer plans. Bringing this to a deeper level of personalization, which Jessica just mentioned, let's turn to you, Roger. I'd like to learn and have our audience hear about factors and considerations when thinking about solutions with IRAs or individual retirement accounts, and how households should think about this.

Can we start with an overview of retirement withdrawals strategies? I know many people enter retirement with a variety of investment accounts. I think I mentioned it earlier in this episode, about my own family and the diversity of accounts, or whether they've switched jobs or own their own businesses. But many have IRAs. Could, you know, could it include a mix of account types, such as Roth and taxable? I think that next level is where many people, including myself, could benefit from a financial professional. They may not have an idea about how they should drawdown on those or get that paycheck that Jessica mentioned. Can you talk about how they make these decisions?

Roger Young: Yeah, there are a lot of kind of new decisions when someone's entering retirement. And Jessica talked about that transition from paycheck to kind of dealing with it on your own. And you have even new decisions that are very novel, like, when do you take Social Security? And to your point, how do you draw upon a bunch of different investment accounts that you've funded over the years? So, so yes, you might have multiple IRAs that came from different employers or even old employer 401(k)s. So it's important to take a household-based approach, you know, across, all of your accounts and if you're married, you know, accounts that that your spouse has or that you have jointly.

So every retiree has different goals and circumstances. And as a result, a personalized plan is really the ideal. And because it's complicated, I think people tend to gravitate toward somewhat simple approaches. So one example might be they decide, “well, this is too complicated. I'm just going to take all the money I need to live off of, out of one account at a time. I'm going to drain that down, then I'll move to the next account.” Another thought for someone who's trying to be more analytical but still keep it simple might be “let's do it proportionately. So if I've got 60% in one account and 40% in the other account, I'll get 60% of my income out of the one and 40% from the other proportionately.”

Kim Zook: Okay. Got it.

Roger Young: Now, those are fairly easy to understand. I could explain it, you know, in a few seconds there and fairly easy to implement, but we found that they can result in a lot less money for a retiree after you factor in taxes. So, the key for a financial service provider is to show people that there are better retirement income strategies they can employ, but in a way, they can actually implement. So by understanding the unique goals and situations we can help them to fund a more secure and fulfilling retirement after all those taxes.

Kim Zook: Well, and this is where it gets complex, right? So let's, I love this, because on one hand, you know, it's how do you replicate that paycheck. But then to your point, now we need to think about strategies and scenarios where, how do you factor in the taxes, for example. So can you walk us through some actual scenarios where they can be most effective? The drawdown?

Roger Young: Sure. So to emphasize, you know, it's both about how much you take out and how to do it. So let's suppose that you enter retirement with a combination of tax-deferred accounts, like a traditional 401(k) or IRA, and a taxable brokerage account. So, we'll refer to those as taxable accounts, a kind of non-retirement types of accounts. You know, maybe as an example, you built up that brokerage account over the years through getting bonuses or you were a really good spender. You got some stock compensation or an inheritance. So lots of ways that you can build those multiple types of accounts.

Now, a so-called “conventional wisdom approach” in retirement would have you take all of that money at the beginning from the taxable account, earlier in retirement. And the idea would be to preserve your tax-advantaged account. Now, by doing that, though, you may have really low taxes early in retirement, but then the taxes would be higher than necessary later in retirement, and in total could be a lot more in taxes than you needed to pay.

So, there are a number of ways that you could address this and potentially improve on that. One example is you could spread out those account distributions from the tax-deferred accounts over time. And that kind of evens out your taxes and doesn't spike your taxes in any given year. You might consider what we call Roth conversions. That's where you take money out of a tax deferred account and convert it to a Roth account. And that entails some taxes upfront but can give you flexibility and potential tax-free income of a Roth account later.

So, lots of different ways you can do it, and a tremendous amount of combinations and permutations of all of that. But the big thing to understand is finding a great strategy is very situation specific for you. And a financial professional needs to understand your whole situation, your whole household of accounts. And then they have to have a way to convert that into a good plan. So, software can enable you to evaluate a large number of strategies and come up with a good one.

Jessica Sclafani: I just have to jump in here, listening to you, Roger, it really just confirms that the research that we've done, related to how people think about spending, right, in retirement. So what we saw in our research was that approximately two thirds of pre-retirees - so those are people age 50 plus that are still working - two thirds don't know how much they'll be able to withdraw from their savings each month in retirement. And this is a pretty fundamental decision to understand as you think about heading into retirement. I have to say too, I mean, I said I was wonky earlier. I don't think you were wonky there, but you described a lot of complex decision points…

Kim Zook: That's right.

Jessica Sclafani: …that people have to navigate. And that can cause kind of analysis paralysis for a lot of people. And one way that we dealt with this or we tried to deal with this, is in the construction of our managed payout solution. So I think about, you know, two thirds of people don't know how much they can withdraw from their savings each month in retirement. We designed our solution to offer a 5% annual payout. So, we're making that decision for them to help them kind of overcome that analysis paralysis that would be pretty, pretty understandable given how many decisions people have to think through.

Kim Zook: Super helpful I think for our audience. And we're here because we benefit from your research. Can you tell us a little bit more about what your research tells you about DC plan participants?

Jessica Sclafani: Sure. Of course. You asked me about my research, I like that question. So, you know, we just heard Roger talk about withdrawal strategies. Another area in our research where we saw individuals claim that they lack knowledge is how to withdraw money tax efficiently from different accounts. So again, I think to Roger's point, people are looking for help on these highly personalized questions when it comes to how they should spend their savings in retirement.

Kim Zook: Yeah. And, Roger, you know how important is it for people to have different types of account when planning a drawdown strategy for retirement?

Roger Young: I would say it's certainly possible to have a very successful retirement with just one type of investment account. And often that would be a traditional tax-deferred account. That's where a lot of people build up their savings for retirement. However, there are big advantages to having a mix of accounts. So let me just give one example. If you have a year in retirement with particularly large expenses, we talked about that in terms of the variability aspect. You know, it can help to have a source of tax-free income like a Roth account.

Kim Zook: Oh, okay.

Roger Young: Yeah. It could also help to have a taxable account where you're only taxed on the gains that you realized. So the part that you put in, you've already been taxed on that, you aren't taxed again. And so that way you might avoid incurring a lot of taxable income in that high expense year that could force you into a higher tax bracket than you usually are in.

So our research has shown that having at least some Roth assets really helps your flexibility on your taxes over the course of your retirement. Now, fortunately, a lot of people today have access to Roth contributions. Now most workplace plans offer them. And within a workplace plan, you don't have the income restrictions like a Roth IRA. And I talked earlier about the option of doing a Roth conversion. So that's another way of having Roth assets in retirement. There are a lot of compelling reasons to put some money in regular taxable accounts, as well as those Roth accounts. And just one example on a taxable account is you can easily get that money out penalty free if you do happen to need it before age 59.5, where often there are penalties with other types of accounts.

Kim Zook: Excellent. Are there any other factors people should consider in developing a retirement income plan beyond what you've just mentioned?

Roger Young: You know, the Social Security claiming decision is very important. Now, listeners have probably heard about the benefits of waiting to claim Social Security benefits. You know, if you think that you might live longer than average or you're worried about outliving your money in case you do live longer than average, it usually makes sense to delay claiming. So, I think in most cases we'd say, you really don't want to take it at 62 right when you can, and maybe not even at Full Retirement Age, you might want to wait as long as possible, to age 70. And it's especially true that you would prefer to claim later if you're the higher earning spouse in a married couple, that way, you can protect the income of whichever of the two of you lives longer.

Now, in addition to potentially maximizing your lifetime benefits, delaying claiming can help you implement a smart withdrawal strategy. And that's something that that actually has been kind of new to me in research over the last few years. I didn't fully appreciate that. You know, the years before you claim and also before you have required minimum distributions from your retirement accounts, that can be a great time to implement techniques that I mentioned earlier. As an example, Roth conversions. So you can do that early in retirement when your tax rate may be relatively low compared to what you have over the course of your full retirement.

Kim Zook: Roger, so you mentioned Social Security, which, you know, for our listeners, we do have an episode that covers that that I'd encourage everyone, if you haven't had a chance to listen to that, you can hear more detail. And you're right, they did emphasize the importance of when you claim it is critical. Can you tell the audience what, you said something called a required minimum distribution? Can you just elaborate a little bit on that for the group?

Roger Young: Sure. So, the government gives you this option to defer your taxes through these accounts. But then part of the deal is that later you're going to pay taxes on that money when you take the money out.

Kim Zook: Ahhh.

Roger Young: …and the government says, "well, we're not going to let you delay that forever." You know, they set an age.

Kim Zook: Got it.

Roger Young:…a beginning date. And they say at a certain point you have to start taking money out of those accounts and so it's required. And there's a minimum amount that you have to take based on your age and how much is in your account. And yes, you have to take that as a distribution and pay taxes on it at that time.

Kim Zook: Got it. I'm not sure everyone understands that full picture because like we said at the top of the episode, so much of thinking about accumulation and save, save, save, we just haven't had to deal with the, those complex details.

So I want to switch gears a little bit and talk about what about the people who are confident that they won't run out of money? Like we know, we heard from Jessica's research that identified that as a key concern for many. But for those who can self-insure or "not run out of money," is retirement income still important for them?

Roger Young: Yeah, this gets back to that aspect of goals, you know, which again, is very individualized. If you're pretty sure that you're going to be leaving an estate, perhaps that legacy is an important goal for you. And if so, your retirement income strategy can have a big effect on the after-tax value that your beneficiaries are going to receive. Sometimes people think a lot about estate taxes. Well, not many people actually pay estate taxes, but the income taxes can be a big deal for people. So this highlights the importance of considering your full picture. Think about are your beneficiaries likely to have a higher income tax rate than you or a lower rate? Now, maybe that's hard to predict. Hard to say. You know at this point in my life, my…

Kim Zook: Right right.

Roger Young: You know, at this point in my life, my beneficiaries are going to have in terms of a tax rate. But at some point maybe that gets a little bit clearer. And if you have some directional sense of that, it can inform your retirement income plan. So as a simple example, if your beneficiaries are in a much higher tax bracket than you, you may want to use tax-deferred assets for your own spending and then leave them other types of accounts, like a Roth account or a taxable account to your kids, so that would help them on taxes. So again, lots of factors to consider. And that may not be that important to you. But if it is, it's really important to foster open communications about finances across generations. And, Kim, I know in your line of work, working with intermediaries, that's a big deal for you all. I'd love to hear your thoughts on…

Kim Zook: Big deal.

Roger Young: …those intergenerational conversations.

Kim Zook: Well, and I know, we offer education for intermediaries about how to have those conversations. I think to your point, open communication. We talked about this in a different episode, not just the Social Security, but the Long-Term Care episode, which I'd encourage the audience to listen to. But I think at the end of the day, what I'm really learning from or taking away is that it's really, really important that there are many more layers to this and considerations and like anything a financial professional or someone that is an expert at this is the right, the right person. So in some places we call those intermediaries, some places we call those financial professionals. But I think of it like if I have a tooth issue, I go to my dentist. If I have, a medical issue, I go to my doctor. If my car is broken down, I go to my mechanic. So a financial professional can really help people - I don't want the audience to feel overwhelmed – but that person can really help them sort through these decisions. So thank you, Roger.

Well, it's hard to believe, but it is time for us to start wrapping up the discussion. So, Jessica and Roger, I'd like to leave our audience with some parting thoughts or next steps. Can you share some brief takeaways?

Jessica Sclafani: Okay. Two quick thoughts. Number one, make sure you understand your employer's retirement plan and if they offer investments and services that can support you in retirement. Number two, this probably won't surprise folks, retirement is all about the tradeoffs. Know what aspects of living in retirement will be or are most important to you and look for investments that align with those needs.

Roger Young: I think those are great takeaways. I think my key points would be that you'll often hear when it comes to your finances, "keep it simple, "automate your savings," "choose a straightforward asset allocation," "don't micromanage your investments." All of that makes sense. Unfortunately, when it comes to retirement income planning, things like Social Security and account types and annuities, taxes that can be pretty complex. So I guess the parting thought is you can get help from a professional, like you mentioned Kim, and that can help you get enough of an understanding to get the ball rolling. And then you can develop a plan that's simple enough for you to follow. So you take that complex and you boil it down and you handle the complexity but do it in a way that's simple enough to make it happen in retirement.

Kim Zook: Yeah, I think that's great because the analysis by paralysis, Jessica mentioned that can sometimes happen, but the audience we what we really want to do is, is really point them in a direction with your takeaways to take action. So thank you both.

Jessica Sclafani: Thanks for having me, this was fun!

Roger Young: Yeah, I enjoyed the conversation. Thanks!

Kim Zook: So as I reflect on what we've discussed today, in summary for our audience, retirement research and offerings continue to evolve and to keep up with the growing and multi-dimensional needs of retirees, which is great to see. Personalized solutions and drawdown strategies can make a significant difference in income and lifestyle in retirement. By carefully considering your tax situation and goals, whether it's extending your portfolio's life, maximizing retirement income, or efficiently passing on wealth to your beneficiaries, you can make informed decisions that benefit you and your family.

Again, I'm Kim Zook. Thank you for listening. Please tune into our next episode, which focuses on adapting your spending habits in retirement and why it's important to plan ahead. If you like this podcast, please rate us and subscribe wherever you get your podcasts. And remember that a confident retirement starts with asking the right questions.

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