5 ways to help protect retirement income

These rules of thumb can help keep your retirement on track.

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Key takeaways

- Plan for health care costs.
- Expect to live longer.
- Be prepared for inflation.
- Position investments for growth.
- Don't withdraw too much from savings.

If you're approaching the off-ramp to retirement—or already there—it's important to think about protecting what you've saved and helping to ensure that you'll have enough income throughout your retirement. After all, you worked hard to get to retirement. So you want to be able to enjoy it without having to worry about money. That means thinking ahead and planning for a retirement that may last 30 years or longer.

Here are 5 rules of thumb to help manage some things that can affect your income in retirement.

1. Plan for health care costs

With longer life spans and medical costs that historically have risen faster than general inflation—particularly for long-term care—managing health care costs is important for retirees. Retirement planning conversations should include a discussion of the impact long-term care costs have on individuals and their family's future.

According to Fidelity's annual retiree health care costs estimate, the average 65-year-old couple retiring in 2019 will need an estimated $285,000 to cover health care costs during their retirement, and that is just using average life expectancy data.[1] Many people will live longer and have higher costs. And that cost doesn't include long-term care (LTC) expenses. Having a dedicated pool of monies for long-term care expenses may be an important consideration to cover long-term care expenses, ultimately protecting your retirement income.

As reported by the US Department of Health and Human Services, about 70% of those aged 65 and older will require some type of LTC services—either at home, in adult day care, in an assisted living facility, or in a traditional nursing home.[2]According to the Genworth 2018 Cost of Care Survey, the average cost of a semiprivate room in a nursing home[3] is about $89,297 per year, assisted living facilities[4] average $48,000 per year, and home health care homemaker services[5]are $48,048 a year.

Consider long-term-care insurance: Insurers base the cost largely on age, so the earlier you purchase a policy, the lower the annual premiums, though the longer you'll potentially be paying for them. It is also important to research the strength of the company you select, as well as investigate other potential options for funding LTC costs.

Read *Viewpoints* on Fidelity.com: Long-term care: Options and considerations

If you are still working and your employer offers a health savings account (HSA), you may want to take advantage of it. An HSA offers a triple tax advantage:[6] You can save pretax dollars, which can grow and be withdrawn state and federal tax-free if used for qualified medical expenses—currently or in retirement.

Read *Viewpoints* on Fidelity.com: 3 healthy habits for health savings accounts

2. Expect to live longer

As medical advances continue, it's quite likely that today's healthy 65-year-olds will live well into their 80s or even 90s. This means there's a real possibility that you may need 30 or more years of retirement income. And recent data suggests that longevity expectations may continue to increase. People are living longer because they're healthy, active, and taking better care of themselves.

Without some thoughtful planning, you could outlive your savings and have to rely solely on Social Security for income. And with the average Social Security benefit for a retired worker currently at just over $1,419 a month, it may not cover all your needs.[7]

Read *Viewpoints* on Fidelity.com: Longevity and retirement and How to get the most from Social Security

Consider annuities: To cover your income needs, particularly your essential expenses (such as food, housing, and insurance) that aren't covered by other guaranteed income like Social Security or a pension, you may want to use some of your retirement savings to purchase an income annuity. It will help you create a simple and efficient stream of income payments that are guaranteed for as long as you (or you and your spouse) live.[8]

Read *Viewpoints* on Fidelity.com: Smart retirement income strategies

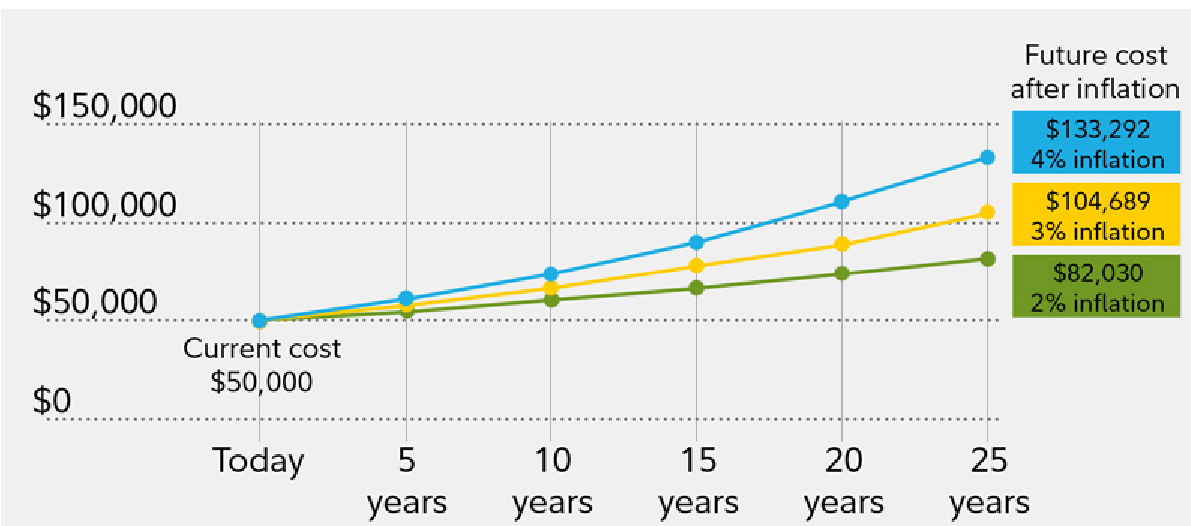
3. Be prepared for inflation

Inflation can eat away at the purchasing power of your money over time. Inflation affects your retirement income by increasing the future costs of goods and services, thereby reducing the future purchasing power of your income. Even a relatively low inflation rate can have a significant impact on a retiree's purchasing power.

Consider cost of living increases: Social Security and certain pensions and annuities help keep up with inflation through annual cost-of-living adjustments or market-related performance. Choosing investments that have the potential to help keep pace with inflation, such as growth-oriented investments (e.g., stocks or stock mutual funds), Treasury inflation-protected securities (TIPS), real estate securities, and commodities, may also make sense to include as a part of an age-appropriate, diversified portfolio that also reflects your risk tolerance and financial circumstances.

The cost of inflation

Even a low inflation rate can reduce the purchasing power of your money.



For illustrative purposes only. Estimated future cost of $50,000 worth of goods or services over 25 years at inflation rates of 2%, 3%, and 4%.

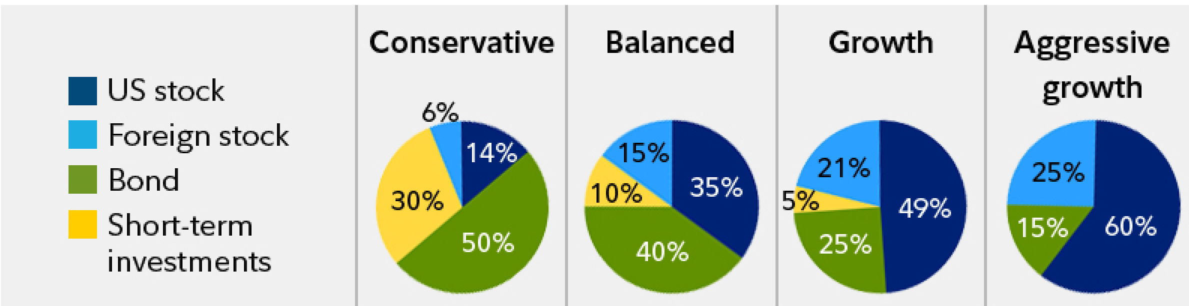
4. Position investments for growth

Overly conservative investments can be just as dangerous as overly aggressive ones. They expose your portfolio to the erosive effects of inflation, limit the long-term upside potential that diversified stock investments can offer, and can diminish how long your money may last. On the other hand, being too aggressive can mean undue risk of losing money in down or volatile markets.

An investment strategy (asset mix) that seeks to balance growth potential and risk (return volatility) may be the answer. You should determine—and consistently maintain—an asset mix that reflects your investment horizon, risk tolerance, and financial situation.

The sample target investment mixes below show illustrative blends of stocks, bonds, and short-term investments with different levels of risk and growth potential. With retirement likely to span 30 years or so, you'll want to find a balance between risk and growth potential.

Find an investment mix with the right amount of growth potential and risk for you



Annual return %	Conservative	Balanced	Growth	Aggressive growth
Average annual return	5.89%	7.83%	8.80%	9.47%
Worst 12-month return	–17.67%	–40.64%	–52.92%	–60.78%
Best 12-month return	31.06%	76.57%	109.55%	136.07%
Worst 20-year return (annualized)	2.92%	3.43%	3.10%	2.66%
Best 20-year return (annualized)	10.98%	13.83%	15.34%	16.49%
Historical volatility	4.49%	9.54%	13.03%	15.72%

Data source: Morningstar Inc., 2019 (1926-2018). **Past performance is no guarantee of future results.** Returns include the reinvestment of dividends and other earnings. This chart is for illustrative purposes only and does not represent actual or implied performance of any investment option.

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 a participant's goals. You should choose your own investments based on your particular objectives and situation. Remember, you may change how your account is invested. Be sure to review your decisions periodically to make sure they are still consistent with your goals.

Consider diversification: Build a diversified mix of stocks, bonds, and short-term investments, according to how comfortable you are with market volatility, your overall financial situation, and how long you are investing for. Doing so may provide you with the potential for the growth you need without taking on more risk than you are comfortable with. But remember: Diversification and asset allocation do not ensure a profit or guarantee against loss. Get help creating an appropriate investment strategy by working with a Fidelity advisor or utilizing our Planning & Guidance Center.

5. Don't withdraw too much from savings

Spending your savings too rapidly can also put your retirement income at risk. For this reason, we believe that retirees should consider using conservative withdrawal rates, particularly for any money needed for essential expenses.

We did the math—looking at history and simulating many potential outcomes—and landed on this guideline: To be confident that savings will last for 20–30 years retirement, consider withdrawing no more than 4%–5% from savings in the first year of retirement, then adjust that percentage for inflation in subsequent years.