# Preparing employees for retirement

*3 financial conversations where pre-retirees could use your help*

Fidelity INVESTMENTS®

With the number of employees nearing retirement growing, it's important to help them cut through the noise so they can make their retirement decisions with confidence.

You can help them by focusing on three important, interrelated conversations:

Social Security

Health Care

Retirement Income

These conversations are complex and interconnected. The important decisions involved shouldn't be made in isolation. Each can have a big impact on a retiree's budget and lifestyle—and even their decision to retire in the first place.

To get employees on the right track early, encourage them to start doing their homework around age 50, when they are eligible to start making catch-up contributions to their retirement savings.

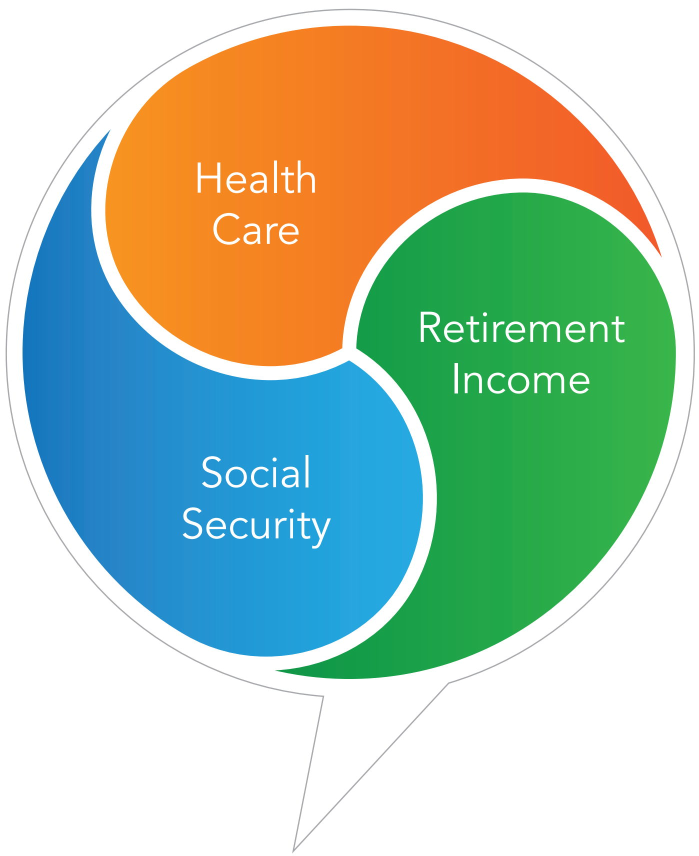
They should be prepared to make these decisions well before they are required to so they won't be caught off guard if they have to retire earlier than planned.

48% of workers age 50 and older said they would decide when to retire within the next 1-2 years[1]

### SOCIAL SECURITY

**Common mistake:** Claiming benefits at the wrong time

**The cost:** Monthly benefits can be reduced substantially, impacting retirement income for a lifetime, but the "right" time to claim is different for everyone




### HEALTH CARE

**Common mistake:** Retiring early without a plan to cover health insurance

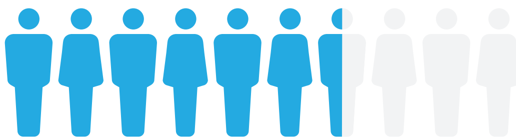
**The cost:** Paying for health insurance until Medicare kicks in can reduce monthly income throughout retirement

### RETIREMENT INCOME

**Common mistake:** Withdrawing too much from retirement savings early in retirement

**The cost:** A greater risk of running out of money later in retirement

# Social Security may be the first thing many workers think of when they hear "retirement." It also can be their first mistake when they are making these critical decisions.



65% of elderly beneficiaries rely on Social Security to provide **the majority of their cash income**[2]

36% of elderly beneficiaries get more than **90% of their income** from Social Security[2]

22% of elderly couples and 47% of those who are unmarried have **no income other than Social Security**[2]

## THE BASICS

**How much do retirees get from Social Security?**

Many people are unaware that there are strategies to optimize their Social Security benefit.

Employees need to understand that Social Security replaces a higher percentage of pre-retirement income for lower- to middle-income earners than it does for those who earn more. Retiree benefits depends on a number of factors, including:

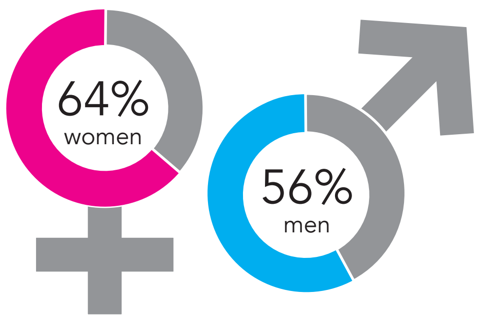
- How much they earned during their working years
- When they start collecting benefits
- Are they claiming as a spouse or survivor?

**47%**
of pre-retirees would welcome help making their Social Security claiming decision[1]

| **Average benefits** (Dec. 2014)[2] | |
|---|---|
| Retired workers | $1,282 |
| Spouses | $673 |
| Widow(er)s | $1,276 |
| **2015 maximum benefit** | |
| Retired workers | $2,663 |

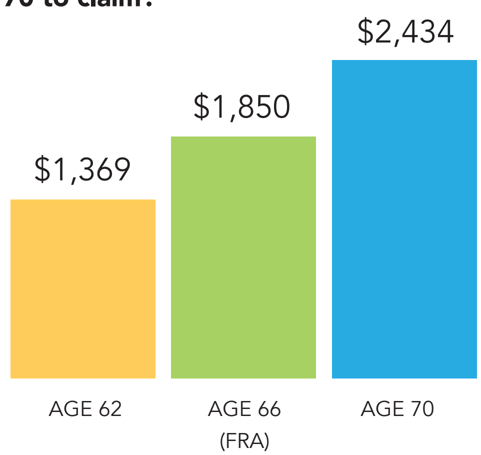
## When it comes to Social Security, it's important to dispel common misunderstandings and help employees learn the basics about claiming strategies.

**Do your employees think they should automatically take Social Security as soon as possible?**




who started receiving Social Security benefits in 2013 did so before reaching their Full Retirement Age (FRA)[2]

**Do they know they can significantly increase their monthly benefits if they can afford to wait until age 70 to claim?**




Hypothetical monthly benefits[3]

**Do they know there are a number of complicating factors that can have a big impact on their benefits?**

**2,500+** rules[4]

**81** different claiming strategies[5]

**$190,000**

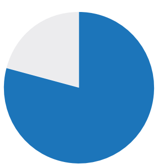
is the difference making the right claiming decision can make for married couples through retirement[6]

# Hand-in-hand with Social Security comes Medicare. But this is just the tip of the iceberg when it comes to health care in retirement.

**Health care costs often are higher than expected in retirement. For some, it can become a gallop to either save more or run the risk of health care expenses taking a hefty bite out of their retirement nest egg.**

## $220,000

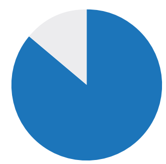
The cost of health care in retirement for an average couple retiring in 2014[7]



## 79%

Percent of workers underestimated that cost[8]

**Compounding the issue, many working Americans have a false sense of their ability to control when they can retire. One out of every three workers may end up retiring earlier than they thought.**



## 86%

Percent of pre-retirees said they were somewhat or very confident in their ability to control the timing of their retirement[8]

## 34%

Percent of retirees admitted that the decision to retire ended up being out of their control and they had to retire earlier than they planned, by an average of more than three years[8]

# Even when it comes to Medicare, employees have misconceptions about eligibility and cost.

Regardless of when people start taking Social Security, Medicare eligibility does not begin until age 65, and they may have to pay for private health insurance if they lose their workplace coverage before then.

It is important that pre-retirees do not underestimate the additional expense of leaving workplace benefits early. Some take Social Security early just to pay for health insurance and help bridge the gap to Medicare—but that means they are permanently cutting one of their primary sources of guaranteed income, a decision that often isn't the prudent choice. This is just one way in which each decision can impact other aspects of retirement.

**$17,000**

The **cost of one year of health care** for a couple who retires today at age 64 instead of 65[9]

**$10,000**

The **health care cost savings** for a couple who retires at age 66 instead of 65[9]

**54%**

of pre-retirees would welcome help understanding supplemental health insurance needs[1]

### MEDICARE ISN'T FREE

Many retirees need to better understand how Medicare works. Specifically:

- How much it costs
- What's covered? What's not?
- Should they get supplemental or advantage coverage? If so, how do they choose?
- What qualified medical expenses can they pay for with a Health Savings Account?
- How can they limit the risk of exorbitant medical bills later in life?

# Both Social Security and health care ultimately inform the creation of a retirement income plan that will provide reliable lifetime income for a retiree.

Many pre-retirees have been thinking about their retirement options for some time. A few have developed detailed retirement income strategies while still in their fifties. Employees need to think about these three key conversations holistically. It is critical that a detailed retirement income conversation take place along with dicussions of Social Security and health care strategies.

Why? Simply because even if a retirement income plan was put in place as a first step toward retirement, it would likely have to be updated just prior to leaving the workforce. If someone delays Social Security to their full retirement age (vs. early claiming at age 62) that will likely reduce the amounts needed from their retirement account to cover their essential expenses.

**44%**
of pre-retirees would welcome help understanding how their cash flow will be generated during retirement[1]

**How long does their money need to last?**

Expected years in retirement for someone retiring at 65[10]


**What matters most?**

When and how a worker can retire typically depends on a host of factors, including:

- guaranteed income sources
- age
- expected longevity
- health
- housing options
- lifestyle
- proximity to friends/family
- potential relocation strategies

## Regardless of retirement assets, one key strategy works for most pre-retirees: Plan for guaranteed sources of income to cover essential expenses throughout retirement.

55% of working Americans are in fair or poor condition relative to covering their estimated retirement expenses.[11]

**Before they retire, your employees should start developing a budget of essential expenses and discretionary spending ...**

**... then consider how to cover their essential expenses with guaranteed income and discretionary expenses with other income.**

### ESSENTIAL EXPENSES

| | |
|---|---|
| Housing | Food |
| Health care | Insurance |
| Utilities | Transportation |

### GUARANTEED INCOME SOURCES

Social Security
Pension
Guaranteed income products*

### DISCRETIONARY SPENDING

| | |
|---|---|
| Travel | Clothing |
| Entertainment | Gifts |
| Hobbies | Charitable gifts |

### INCREMENTAL INCOME SOURCES

Workplace savings investments
Other personal savings
Other income, including work

**48%**
of pre-retirees say they expect to work part-time during retirement, but only **11%** actually do[1]

## Retirees face five key risks to their budget:

**Overspending**

Spend too much and retirees may outlive their savings. One rule of thumb is to start with an annual withdrawal rate of 4% to 5%.

**Longevity**

For a couple who reach the age of 65, there is a 25% chance of one partner living to age 98.[12]

**Health Care**

Health care gets expensive, especially as people age. This can come as a shock for those who haven't planned for this expense.

**Inflation**

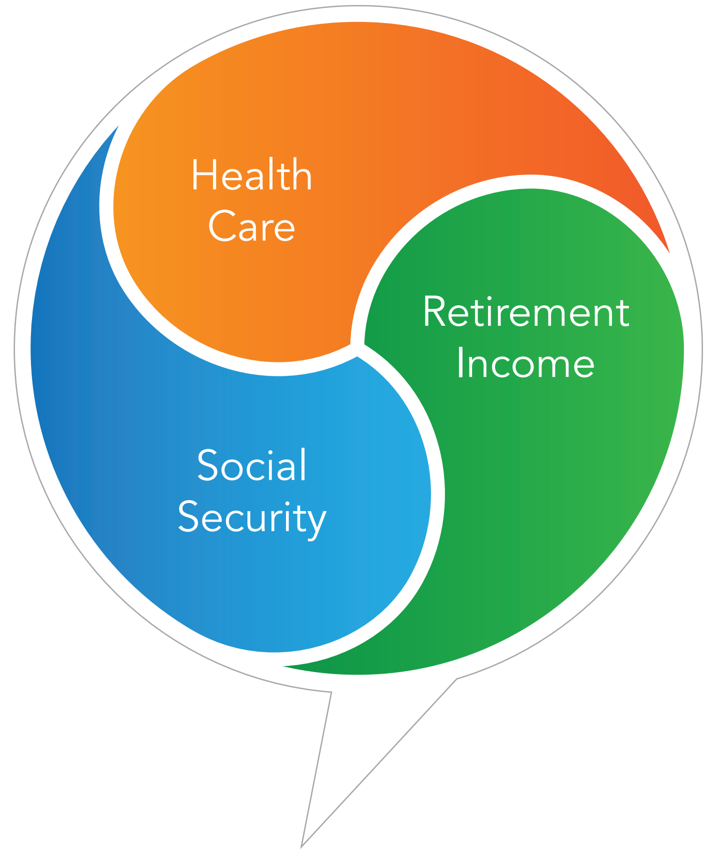
Even low inflation eats away at buying power throughout retirement. At 2% inflation, $50,000 today may be worth only $30,000 in 25 years.[13]

**Investing**

With retirement likely to span 30 years, pre-retirees should avoid being too conservative or too aggressive with their investments.

Given these concerns — and their reduced appetite to take on risks later in life — many pre-retirees need help to develop retirement income plans designed to weather these possibilities.

# Pre-retirees face a number of connected retirement planning choices as they prepare to leave your organization.




The three decisions mapped to Social Security, health care, and retirement income strategies are complex and inter-related. Employees are looking for help to begin tackling these once-in-a-lifetime decisions as they approach retirement.

By facilitating "the right conversations at the right time," employers can play a vital role in helping to increase the confidence factor in making these important decisions. Helping pre-retirees focus on these challenges beginning at age 50 could help you better manage your workforce strategies. Most importantly, these actions can help put employees on their way to a successful retirement — be it a "next phase of their working life" — or a full stop from working altogether as they start enjoying their well-deserved "retirement."

## What you can do

**Analyze plan data:** Fidelity can help you better understand your workforce demographics. Use the Executive Insights tool to better understand how many of your employees are over 50, whether they are making catch-up contributions, and how they are invested.

**Offer your support:** Most pre-retirees would welcome employer support as they prepare to leave the workforce—especially those without access to pension or retiree medical benefits. Contact your Fidelity representative today to learn more about how you can help.

**All investing involves risk, including the risk of loss.**

* Guarantees are subject to the claims-paying ability of the issuing insurance company.

[1] Fidelity Retirement Transition Services Study, December 2014.

[2] Social Security Administration data: Fast Facts and Figures about Social Security, 2014; Social Security Basic Facts (April 2, 2014); Annual Statistical Supplement 2014; and Annual Statistical Supplement 2015 (In Progress)

[3] This is a hypothetical example of someone whose full retirement age is 66 + 2 months, and whose final salary is $55,000. This example is for illustrative purposes only. Benefits estimated using Social Security's Quick Calculator. This hypothetical example assumes salary grew at same rate as average wages. It also assumes the person is not working in retirement. Sample benefits do not reflect annual cost-of-living adjustments or taxes. Had taxes been taken into account, the amounts would have been lower.

[4] "Planning can help avoid mistakes with Social Security"; USA Today; June 29, 2015

[5] "Social Security strategies for married couples"; MarketWatch; Oct. 2, 2014

[6] Social Security estimates are based on total lifetime income of roughly $975,000 over a hypothetical couple's lifetime with benefits beginning at age 70 vs. an approach where both spouses begin collecting at age 62, providing an lifetime income of about $785,000. Benefits are estimated using Social Security methodology from Fidelity's Strategic Advisers, Inc. and based on average life expectancies of 85 for a man and 88 for a woman at age 65, using the Annuity 2000 mortality table. These estimates are in real dollars and do not include any discounting for time value of money.

[7] Fidelity Benefits Consulting, 2014. Based on a hypothetical couple retiring at age 65, with average (82 male, 85 female) life expectancies. Estimates are calculated for "average" retirees, but may be more or less depending on actual health status, area of residence, and longevity. The Fidelity Retiree Health Care Costs Estimate assumes individuals do not have employer-provided retiree health care coverage, but do qualify for the federal government's insurance program, Medicare. The calculation takes into account cost-sharing provisions (such as deductibles and coinsurance) associated with Medicare Part A and Part B (inpatient and outpatient medical insurance). It also considers Medicare Part D (prescription drug coverage) premiums and out-of-pocket costs, as well as certain services excluded by Medicare. The estimate does not include other health-related expenses, such as over-the-counter medications, most dental services, and long-term care. Fidelity-sponsored online survey of 1,007 adults, age 55–70 conducted by GfK Public Affairs & Corporate Communications, February 2014

[8] Survey performed for Fidelity Investments by GfK Public Affairs and Corporate Communications in February 2014, using GfK's KnowledgePanel® of 1,007 U.S. adults ages 55–70.

[9] Fidelity Benefits Consulting, 2014 Fidelity Retiree Health Care Cost Estimate

[10] The average life expectancy for a man and woman at age 65, using Annuity 2000 mortality table is 85 and 88 respectively.

[11] Fidelity Retirement Savings Assessment, 2013

[12] Society of Actuaries Annuity RO-2014 Mortality Table. Figure assumes opposite-sex couple with both persons in good health.

[13] Hypothetical rate of inflation of 2%, actual rates may be more or less and will vary.



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