FIDELITY INSTITUTIONAL℠

Developing an Effective Income Strategy

Consider investor portfolios from different perspectives

Not FDIC Insured • May Lose Value • No Bank Guarantee

A Three-Pronged Approach to Constructing Portfolios

Practical

Emotional

Mathematical

Keeping the Practical in Mind:

Health care, housing, and food are the three largest expenses for retirees

- An average couple can expect health care expenses of **$295,000** in retirement; this amount is projected to grow 5.5% annually.[1]
- For a couple at age 65, the chances that one person will survive to age 85 are **more than 75%**.[2]
- **32.5%** of individuals 65–74 years old will be working in 2028, up from 17.7% in 1998.[3]

[1] Estimate based on a hypothetical couple retiring in 2020, 65-years-old, with life expectancies that align with the 50% mortality age based on the Society of Actuaries RP-2014 Mortality Table projected with Mortality Improvement Scale MP-2017 as of 2018. Actual assets needed may be more or less depending on actual health status, area of residence, and longevity. Estimate is net of taxes. The Fidelity Retiree Health Care Cost Estimate assumes individuals do not have employer-provided retiree health care coverage, but do qualify for the federal government's insurance program, Original 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 Original Medicare. The estimate does not include other health-related expenses, such as over-the-counter medications, most dental services and long-term care.

[2] Https://www.ssa.gov/planners/lifeexpectancy.html.

[3] U.S. Bureau of Labor Statistics, civilian labor force participation rate by age, sex, race, and ethnicity, 9/4/19.

Take Stock of Your Funding Sources

Use your sources of dependable income to cover health care and other essential expenses.

Reliable income sources
(pension plan, Social Security, annuities)

Cover →

Essential expenses
(food, clothing, shelter, health care)

Other income sources
(mutual funds, stocks/bonds, CDs, IRAs, 401(k)s)

Cover gaps first → Essential expenses

Then fund →

Discretionary expenses
(travel, entertainment, memberships)

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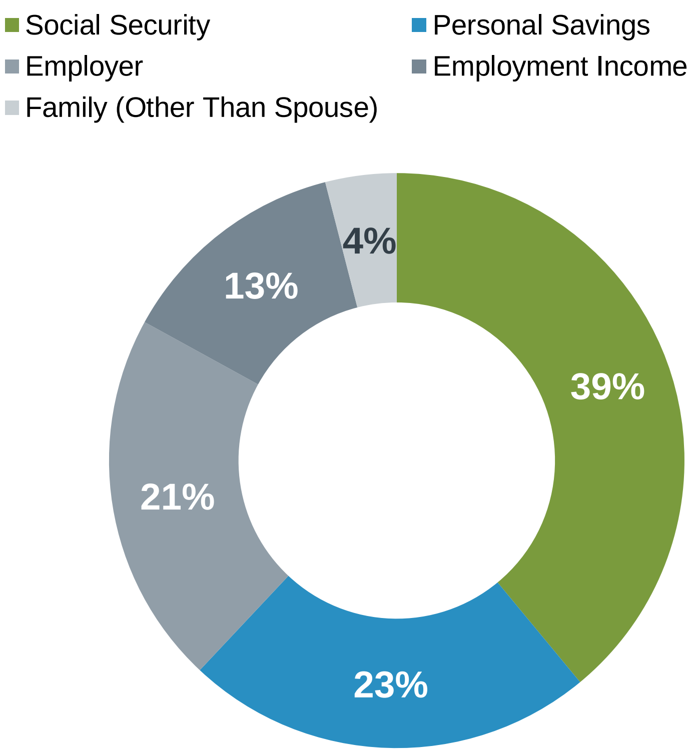
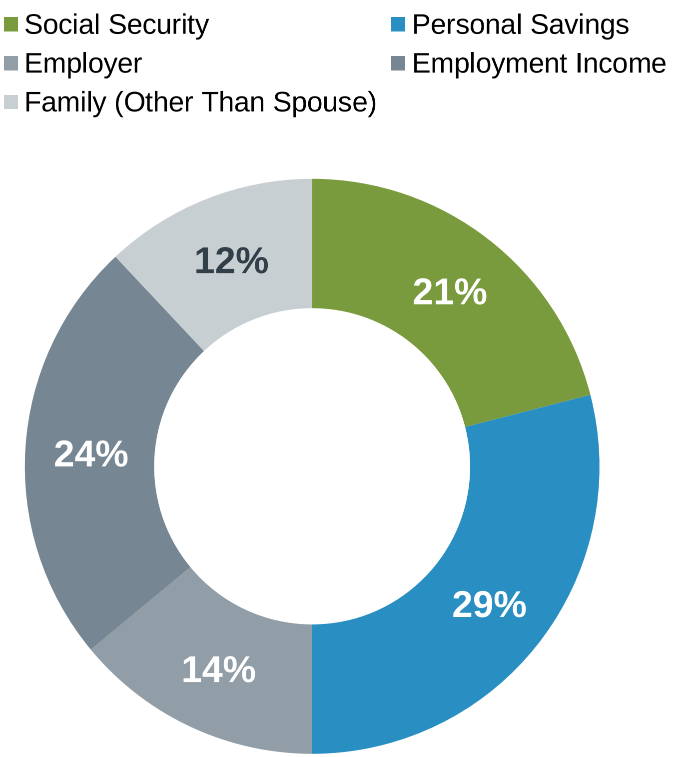
Keeping the Practical in Mind:

Retirement income—today and tomorrow

BOOMERS



MILLENNIALS



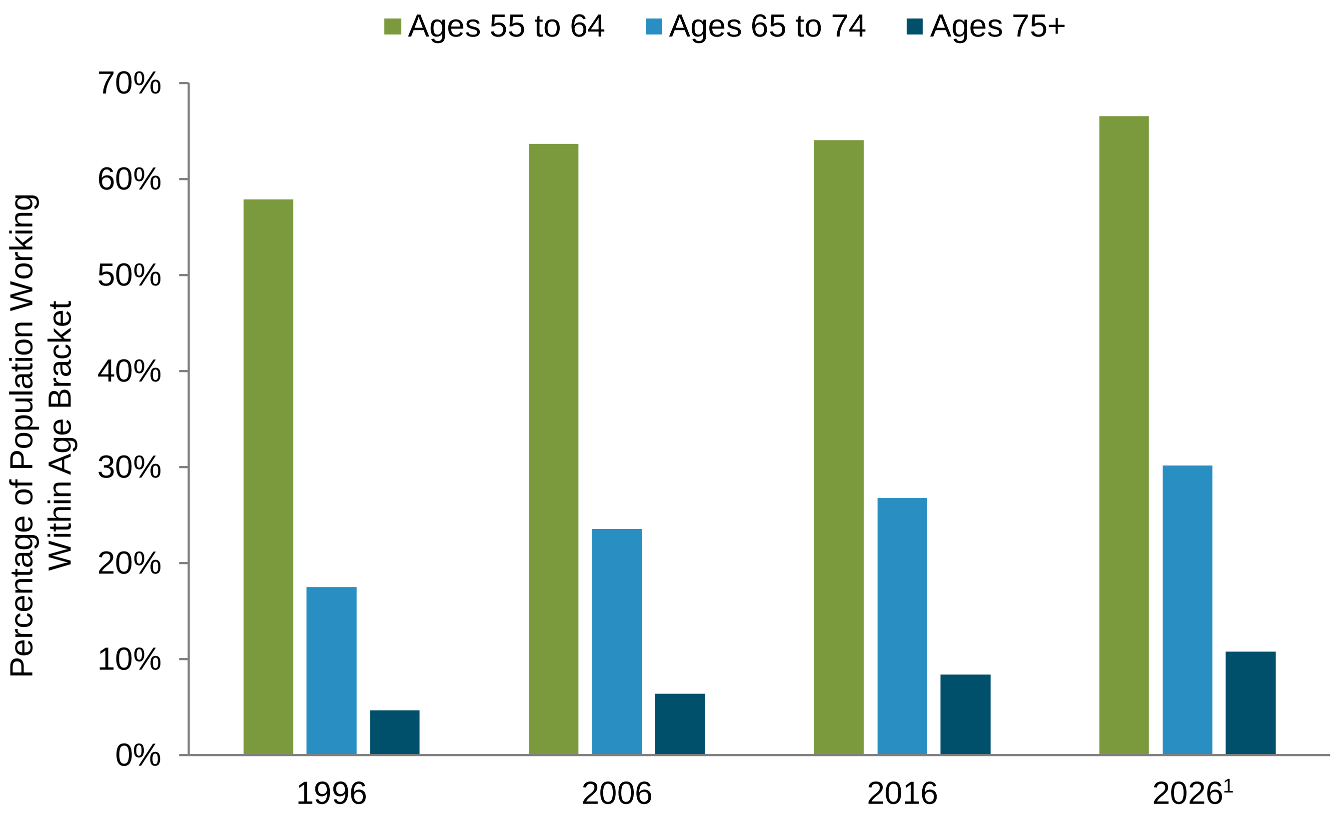
Source: Age Wave/Merrill Lynch, "Finances in Retirement: New Challenges, New Solutions," 2017;
Base: Age 25+, Boomers are defined as age 52–70 and Millennials age 25–39.

Keeping the Practical in Mind

Retirement income—today and tomorrow

PRACTICAL EMOTIONAL MATHEMATICAL

MORE RETIREES FORECASTED TO WORK LATER IN LIFE



[1] Projected.
Bureau of Labor Statistics, September 2019.

Keeping the Practical in Mind:

Variable annuity with a protected income feature

A variable annuity with a protected income feature may:

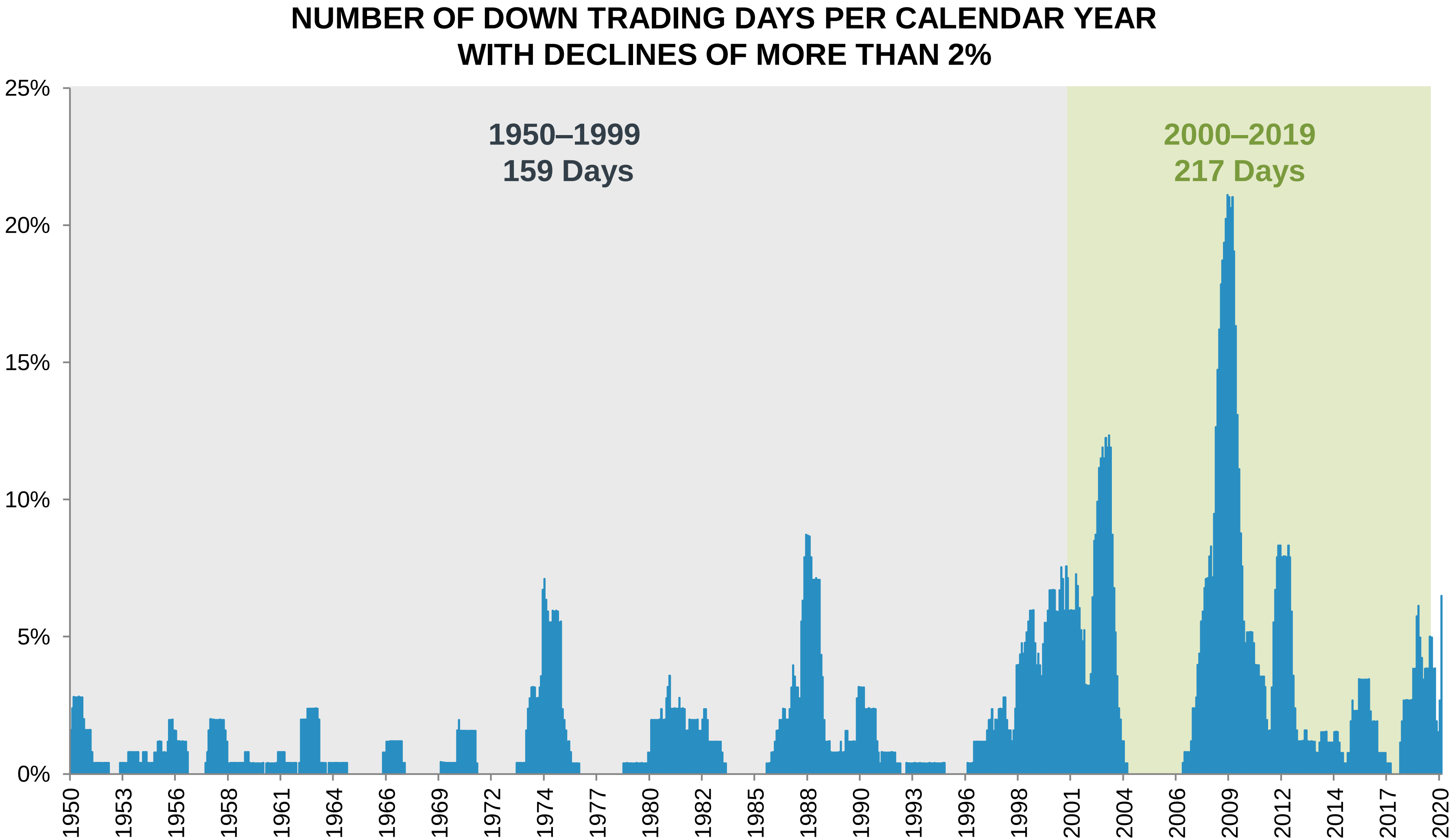
Reliability	Predictability	Higher Return Potential
Improve total portfolio income reliability	Provide predictability by deriving income from an asset category at a known value, point in time, and period of time	Increase higher return potential through a higher allocation to equities that won't negatively impact total income received, which may be important to more conservative clients

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

PRACTICAL EMOTIONAL MATHEMATICAL

Keeping Emotions in Check:

Market volatility exacerbates the effects



Past performance is no guarantee of future results. You cannot invest directly in an index. Index performance includes the reinvestment of dividends and interest income.

Source: Standard & Poor's, as of 4/15/20.

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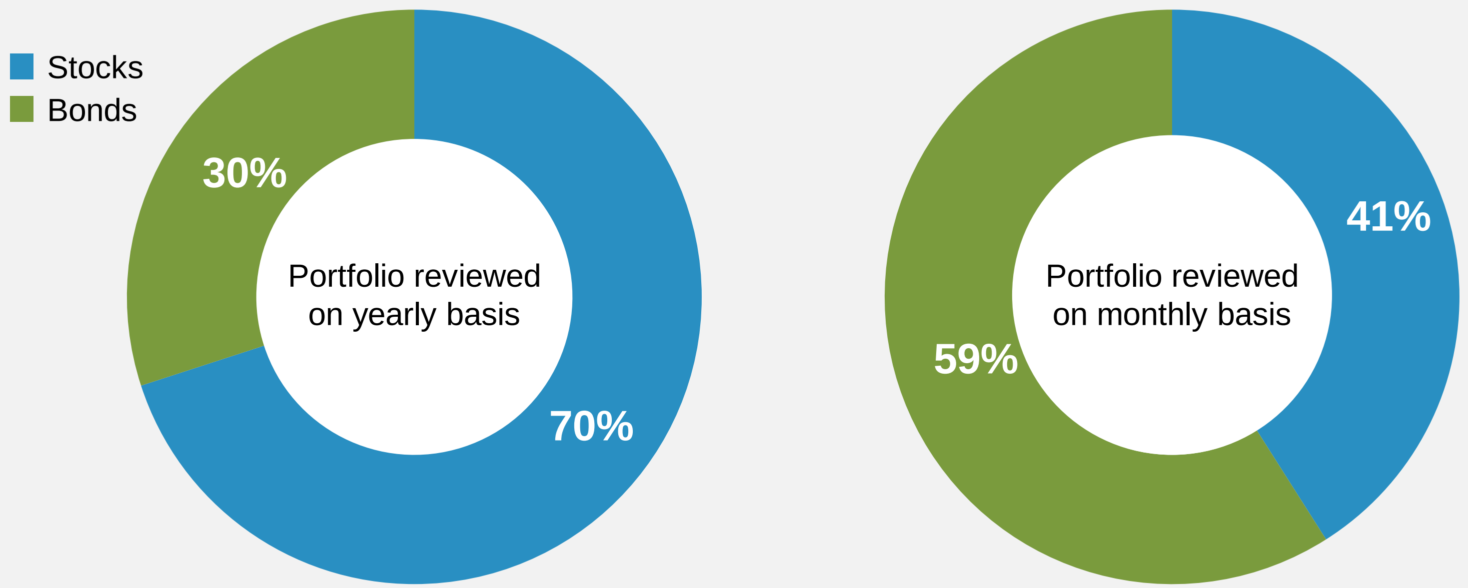
Frequent Portfolio Evaluation Can Lead to Risk-Averse Behavior

A short-term focus can lead to investing too conservatively

Constant reminders of volatility may cause investors to
seek more conservative investments—
regardless of objectives or time horizon.



In the study, subjects were assigned simulated conditions that were similar to making portfolio decisions on a monthly or yearly basis. Source: Thaler, R. H., A. Tversky, D. Kahneman, and A. Schwartz. "The Effect of Myopia and Loss Aversion on Risk Taking: An Experimental Test." *The Quarterly Journal of Economics* 112.2 (1997).

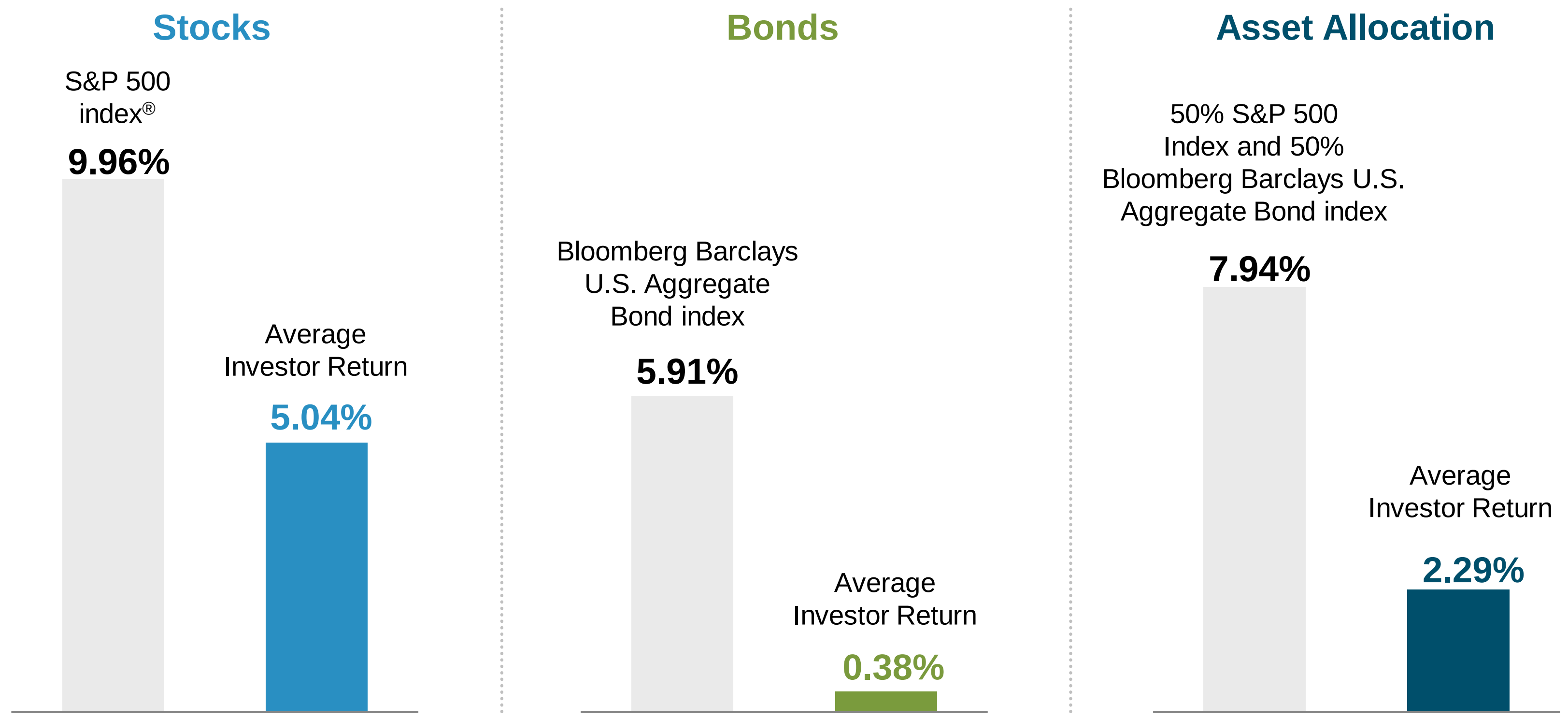
 For investor use.

Keeping Emotions in Check:

The average investor's portfolio consistently underperforms

AVERAGE ANNUAL RETURNS (1990–2019)

Gap by Which the Average Investor's Portfolio Consistently Underperforms the Index



Past performance is no guarantee of future results. It is not possible to invest directly in an index. All market indices are unmanaged.
Returns are for the period ending December 30, 2019. Average equity investor, average bond investor, and average asset allocation investor performance results are calculated using data supplied by the Investment Company Institute. Investor returns are represented by the change in total mutual fund assets after excluding sales, redemptions, and exchanges. This method of calculation captures realized and unrealized capital gains, dividends, interest, trading costs, sales charges, fees, expenses, and any other costs. After calculating investor returns in dollar terms, two percentages are calculated for the period examined: Total investor return rate and annualized investor return rate. Total return rate is determined by calculating the investor return dollars as a percentage of the net of the sales, redemptions, and exchanges for each period.

PRACTICAL EMOTIONAL MATHEMATICAL

Keeping Emotions in Check:

Product selection impacts performance

Average Subaccount Investor has outperformed the Average Mutual Fund Investor since 2000, including every year since 2009.

AVERAGE ANNUAL RETURNS[1] (1990–2018)

Year	Average Subaccount Investor Return	Average Mutual Fund Investor Return	Subaccount Investor Performance vs. Mutual Fund Investor
2000	-9.48%	-10.19%	0.71%
2001	-15.35%	-14.91%	-0.44%
2002	-20.07%	-21.85%	1.78%
2003	29.92%	30.08%	-0.16%
2004	12.52%	12.60%	-0.09%
2005	8.71%	8.45%	0.26%
2006	15.15%	14.65%	0.50%
2007	6.80%	7.33%	-0.53%
2008	-42.00%	-41.62%	-0.38%
2009	31.36%	31.32%	0.05%
2010	14.62%	14.13%	0.49%
2011	-5.47%	-5.72%	0.25%
2012	16.21%	15.62%	0.59%
2013	27.74%	25.68%	2.05%
2014	**6.50%**	**5.48%**	**1.02%**
2015	**-1.53%**	**-2.27%**	**0.75%**
2016	**8.13%**	**7.23%**	**0.91%**
2017	**22.06%**	**20.71%**	**1.34%**
2018	**-7.20%**	**-9.42%**	**2.23%**

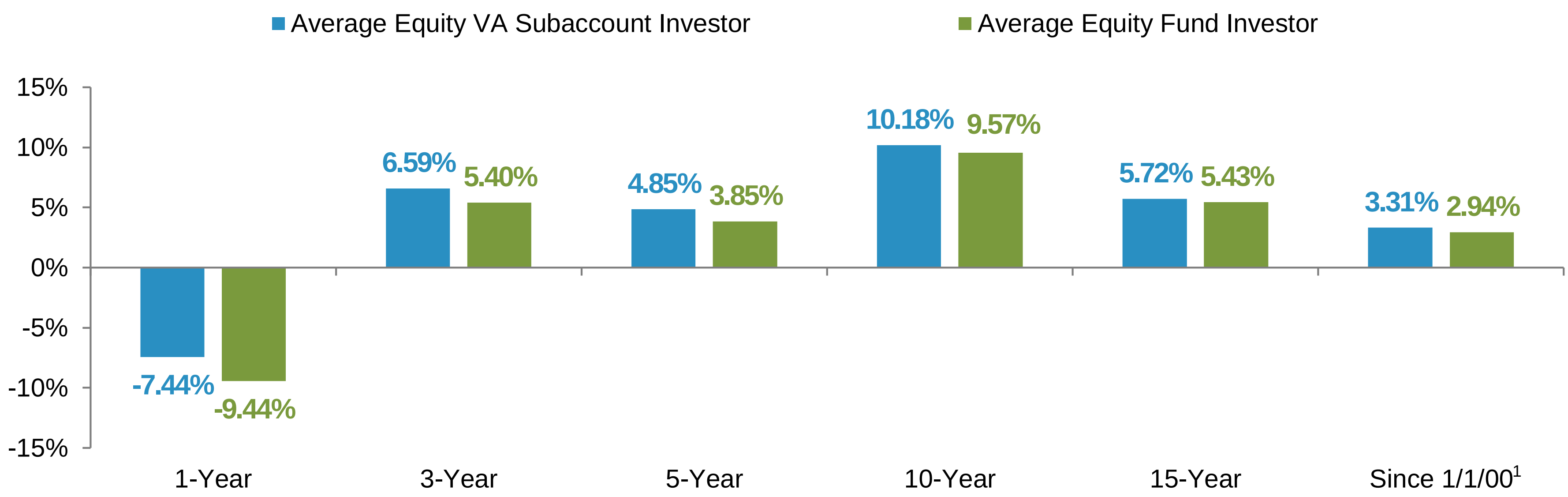
[1] Dalbar, *Quantitative Analysis of Investor Behavior*.
Past performance is no guarantee of future results.

Fidelity INVESTMENTS

Keeping Emotions in Check:
Product selection impacts performance

The Average Subaccount Investor outperformed the Average Mutual Fund Investor on an annual basis over 1, 3, 5, 10, 15, and 19-year time periods.

ANNUALIZED RETURNS
Period ending 12/31/18



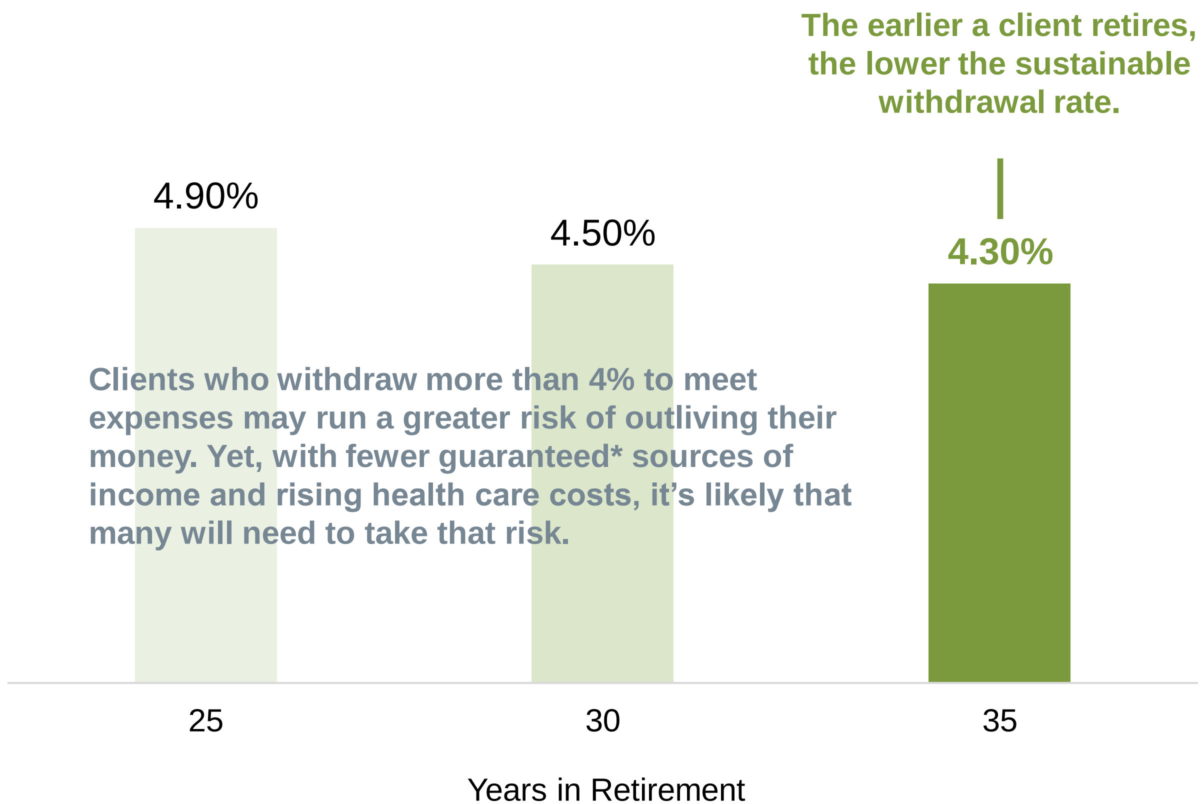
Source: Fidelity, based on data from Dalbar, Quantitative Analysis of Investor Behavior.

Past performance is no guarantee of future results.

[1] Beginning assets are not available for January of 2000, therefore making the gain/loss for that month unavailable. Annualized return for the average Subaccount Investor assumes an "average investor return" in the month of January 2000 equal to that of the Average Mutual Fund Investor (-4.11%).

Making the Math Work

MAXIMUM WITHDRAWAL RATE[1]



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

[1] **Past performance is no guarantee of future results.** Overlapping 812, 752, and 692 planning horizons were analyzed for, respectively, 25-year, 30-year, and 35-year scenarios. Monthly returns data were used, starting from January 1926 and ending at July 2018. The chart shows historical maximum sustainable withdrawal rates that produced a 90% success rate over various time periods since 1926. Hypothetical scenarios assume a balanced portfolio of 50% stocks, 40% bonds, and 10% cash. Results are hypothetical and do not reflect actual investor experience. For illustrative purposes only.

PRACTICAL EMOTIONAL MATHEMATICAL

Making the Math Work

THE IMPACT OF THE SEQUENCE OF RETURNS

Starting Value $1,000,000; No Annual Contribution; $50,000 Annual Withdrawals				
Year	Annual Rate of Return %	Down Market "Early" Value	Annual Rate of Return %	Down Market "Late" Value
1	-15%	$800,000	22%	$1,170,000
2	-4%	$718,000	8%	$1,213,600
3	-10%	$596,200	30%	$1,527,680
4	8%	$593,896	7%	$1,584,618
5	12%	$615,164	18%	$1,819,849
6	10%	$626,680	9%	$1,933,635
7	-7%	$532,812	28%	$2,425,053
8	4%	$504,125	14%	$2,714,560
9	-12%	$393,630	-9%	$2,420,250
10	13%	$394,802	16%	$2,757,490
11	7%	$372,438	-6%	$2,542,041
12	-10%	$285,194	17%	$2,924,187
13	19%	$289,381	19%	$3,429,783
14	17%	$288,576	-10%	$3,036,805
15	-6%	$221,261	7%	$3,199,381
16	16%	$206,663	13%	$3,565,301
17	-9%	$138,063	-12%	$3,087,465
18	14%	$107,392	4%	$3,160,963
19	28%	$87,462	-7%	$2,889,696
20	9%	$45,333	10%	$3,128,665
21	18%	$3,493	12%	$3,454,105
22	7%	$(46,262)	8%	$3,680,434
23	30%	$110,141)	-10%	$3,262,390
24	8%	$(168,952)	-4%	$3,081,895
25	**22%**	**$(256,121)**	**-15%**	**$2,569,610**

Distributions are same in all periods, and made at the end of the time period. Rate of return is compounded annually. Values are displayed post distribution.
The examples above are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results.
Source: Fidelity Investments.

Making the Math Work

Clients who invest in equities and withdraw at a lower rate improve their chances of having their money last their lifetime

ASSET ALLOCATION AND WITHDRAWAL RATES

Investment needed to generate $1,000 monthly income

Stocks / Bonds / Cash	Asset Allocation	Withdrawal Rate 4%	5%	6%	7%
	All Cash Allocation	17%	0%	0%	0%
	Conservative Allocation 20/50/30	94%	50%	12%	0%
	Balanced Allocation 50/40/10	92%	71%	51%	30%
	Growth Allocation 70/25/5	89%	74%	58%	39%
	Aggressive Allocation 85/15/0	88%	73%	60%	46%

Source: Fidelity Investments. Hypothetical illustration based on an investor age 65 planning through age 95. Hypothetical value of assets held in an untaxed account of $500,000 invested in the respective portfolios comprised of stocks, bonds, and short-term investments with inflation-adjusted withdrawal rates as specified. Stocks, bonds, and short-term investments are represented by total returns of the US Large Stock Index January 1926–January 1987, Dow Jones Total Market Index from February 1987 to present; US Intermediate-Term Government Bond Index from January 1926–December1975, Barclays Aggregate Bond Index from January 1976–December 2019; and 30-Day T-Bills from January1926 to present. You cannot invest directly in an index. This chart is for illustrative purposes only, is not indicative of any investment, and is not intended to project or predict the present or future value of the actual holdings in a participant's portfolio or the performance of a given model portfolio of securities. Diversification does not ensure a profit and does not protect your investments in a declining market. The suitability of the investments should be based on a client's age, objectives, and risk tolerance.

Making the Math Work

Increase protected income and lower withdrawal rates

	No Variable Annuity	With an Annuity	
Retirement Portfolio	$1,000,000	$650,000	
Annuity Purchase	$0	$350,000	
Social Security Income (Annual)	$20,000	$20,000	Protected Income
Variable Annuity with 5% Guarantee	–	$17,500	
Portfolio Withdrawals	$40,000	$22,500	Subject to Market Volatility
Portfolio Withdrawal Rate	4%	3.46%	
Protected Income %	33%	62%	
Total Annual Income	$60,000	$60,000	

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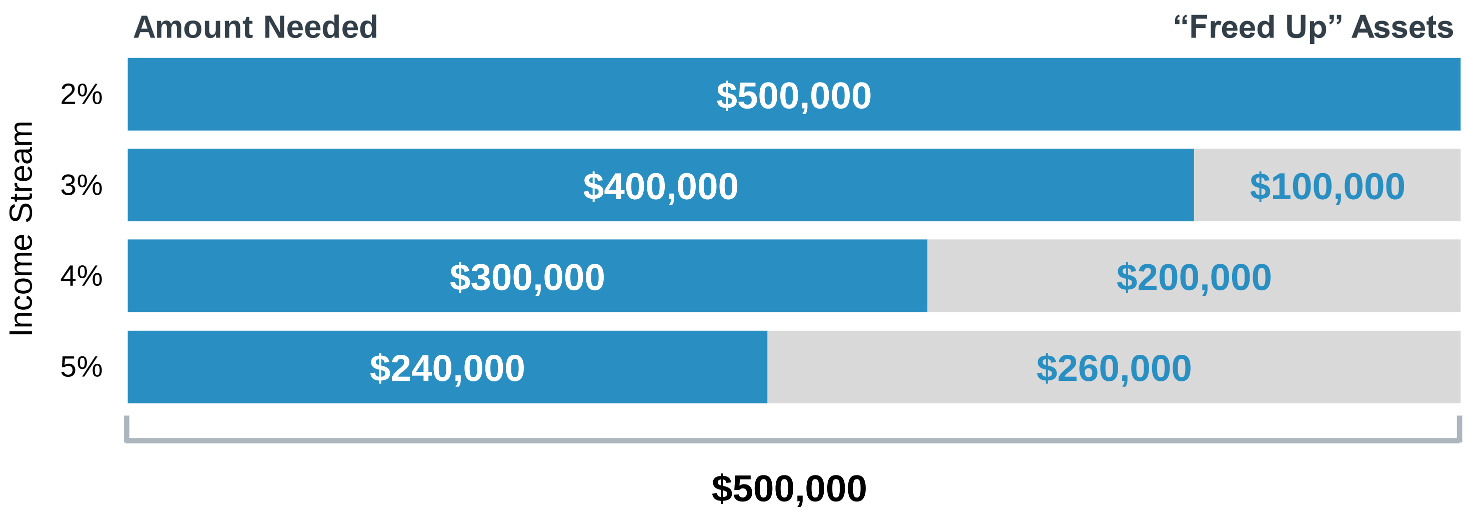
Guarantees are subject to the claims-paying ability of the issuing insurance company.
Source: Fidelity Investments.

Making the Math Work

Incorporate investments that pay out a higher income stream

INVESTING FOR RETIREMENT

Investment needed to generate $1,000 monthly income



The hypothetical example is for illustrative purposes only. It does not reflect a specific annuity, an actual account value, or the performance of any investment. The length of time that the income stream will last can vary based on the investment vehicle, the performance of the underlying investment(s), and the withdrawal rate.

Make a Plan

Working with a financial representative can be invaluable

How can a financial representative help?

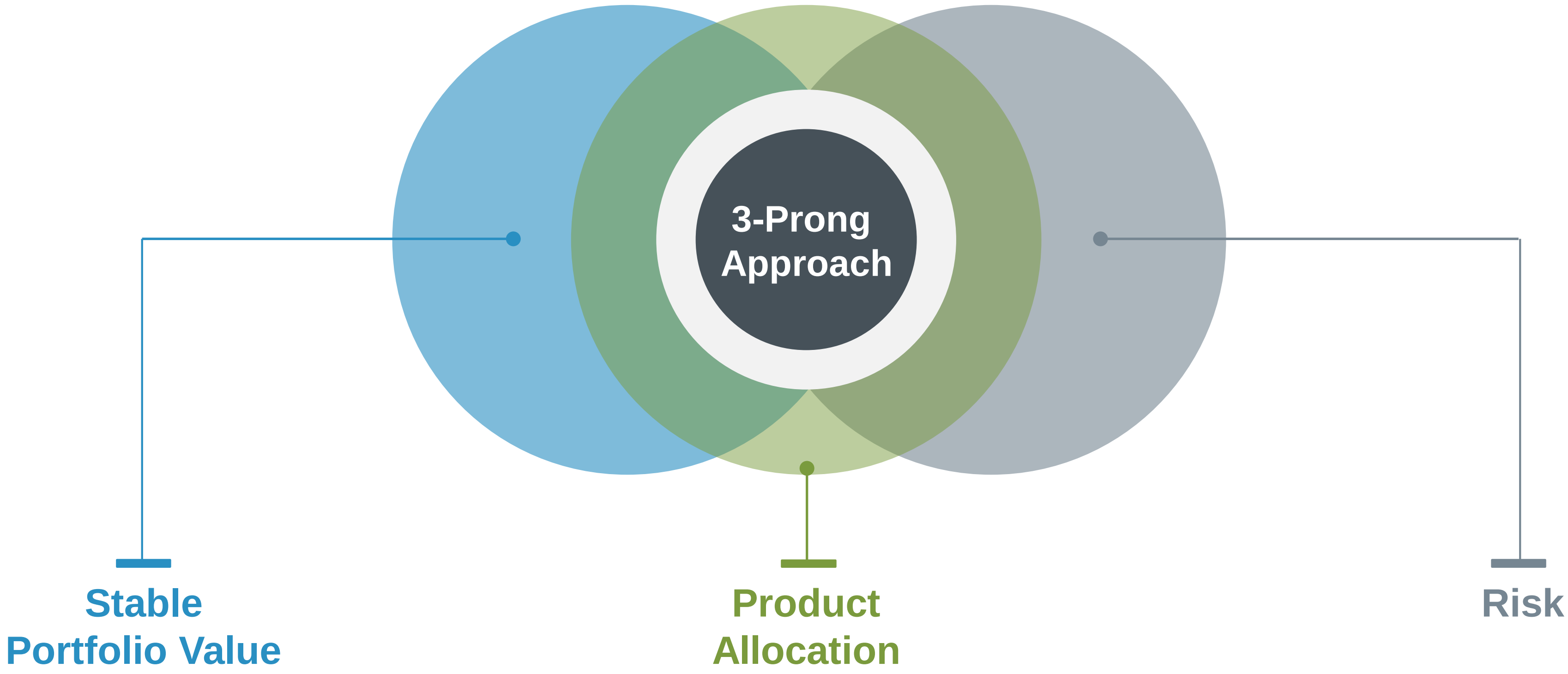
Tailor an investment plan aligned to your goals, risk tolerance, and time horizon.	**Maximize** your retirement income potential and minimize your tax exposure.	**Guide you through** emotional financial decisions.

81% of pre-retirees think a retirement income plan is important[1] **yet** **77%** of pre-retirees have no plan[1]

[1] The 2016 Fidelity® Millionaire Outlook survey was an online, blind study conducted by TNS, a third-party independent research firm not affiliated with Fidelity Investments, from January 5, 2016, to January 22, 2016. It was focused on understanding investors' attitudes, behaviors, and preferences related to investing, wealth management, and advice usage.
It was held among a target sample of 1,287 respondents of all affluence levels.

Fidelity INVESTMENTS®

Developing an Effective Income Strategy to Address the Following Challenges



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Before investing in an annuity, there are a number of factors that need to be reviewed with a licensed agent to determine product suitability. It is important to keep in mind that with a variable annuity, all gains are taxed as ordinary income upon withdrawal and a 10% IRS tax penalty may apply to withdrawals taken prior to age 59½. Also, unlike a taxable account, your client is subject to an annual annuity charge.

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