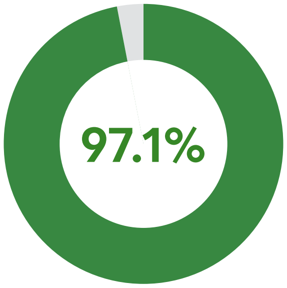
Consider a Tax-Efficient Investment Strategy

Clients are looking for more than just financial planning

As the baby boomer generation begins to retire en masse, Gen X/Y and millennials are becoming the focus for many advisors. But the needs and preferences of younger investors are vastly different from those of baby boomers.

For example, 58% of Gen XYZ investors surveyed by Fidelity said they would like their financial representative to provide comprehensive services that include tax planning and estate planning, versus only 23% of baby boomers.[1]

To meet these changing needs, you can start by identifying strategies and products that may help your clients with their broader needs, including tax planning.



In 2018, the top 50% of all taxpayers paid 97.1% of all individual income taxes, while the bottom 50% paid the remaining 2.9%.[2]

Higher Tax Efficiency	Medium Tax Efficiency	Lower Tax Efficiency
• Equity index funds (other than REITs)	• Bond funds with large U.S. Treasuries allocations**	• High-turnover equity funds
• Equity index ETFs (other than REITs)	• Typical actively managed equity funds*	• Mortgage bond funds
• Equity income ETFs*	• Equity income funds*	• Corporate bond funds
• Tax-managed equity funds	• REIT funds	• Leveraged loan/floating rate bond funds
• Equity separately managed accounts		• U.S. high-yield bond funds
		• Emerging-market bond funds

Keep in mind that with a deferred variable annuity, earnings are taxed at ordinary income tax rates upon withdrawal and if taken prior to age 59½ may be subject to a 10% IRS penalty.

The relative tax efficiencies of these investments are generalizations and are not universally accurate. Each investment should be considered individually for the benefits of being held in a taxable or tax-deferred account.

* Equity income funds and ETFs typically distribute most of their income in the form of qualified dividends, which for many taxpayers are taxed relatively lightly, allowing most equity income funds to be considered high-tax-efficient investments. However, for higher-income taxpayers, qualified dividends are subject to taxation at a rate of either 18.8% or 23.8% (including the Medicare surtax on investment income), which may make them less efficient for those investors.

** Applies to investors who are subject to high rates of state/local taxes on investment income; for other investors, these bond funds should be considered as having lower tax efficiency.

Fidelity INVESTMENTS®

How tax efficient is my current investing strategy?

The following questions can help you assess the level of your tax exposure. If you answer yes to three or more, you may benefit from a more tax-efficient strategy.

T	**Ten years or more until use?** The longer your money stays in a tax-deferred account—like a 401(k) or variable annuity—the longer the period of time it can potentially grow.
A	**Assets largely held in taxable accounts?** If you are subject to a relatively high marginal income tax rate and have assets in taxable accounts, you may benefit from tax deferral.
I	**Income tax subject to high marginal rates?** In general, higher marginal rates apply if you are in one of the top three federal income tax brackets (currently 32% and above) and/or pay high state or local taxes.
L	**Lower anticipated income taxes in retirement?** You expect to pay lower taxes in retirement. Maybe your income will be reduced or you plan to move to a state with lower taxes.

Identifying opportunities for variable annuities and variable life

Common situations for tax-advantaged investment opportunities

T	**Trust opportunities** Help meet the needs of trust beneficiaries by providing income tax efficiency within the trust.
R	**Reduced fee opportunities** Reduce fees by removing living benefits from contracts where they are no longer useful. Additionally, housing tax-inefficient assets inside a VA may reduce tax-cost burden.
E	**Expanded control of taxable income from investments** Gain control over the taxation of investments held in and outside of trusts.
A	**Asset protection (creditor protection)** Move assets into annuities to help protect assets of those individuals who may be subject to higher-than-average litigation risk (e.g., doctors or contractors) in many states.
D	**Death benefit** Potentially enhance the value of assets passing to beneficiaries.

Strategies to consider

Consider these three strategies to help you maximize your tax benefits to increase your savings.

1 **Invest in tax-free investments or investment vehicles.**
Consider converting a pretax-deferred account to a Roth IRA. While you may benefit from tax-free withdrawals from a Roth, there will be a tax liability at the time of conversion. You could also consider investing in municipal bonds, which are generally exempt from federal tax.

2 **Allocate investments to tax-deferred accounts.**
Putting investments in a trust may help lower federal tax liability, but be sure to consult a tax professional to determine if there are any estate tax implications. A simpler investment option may be a variable annuity, which allows you to defer taxes while increasing the growth potential of your assets. Keep in mind that variable annuities have additional expenses not found in taxable accounts that will affect returns.

3 **Look for deductions.**
Tax-loss harvesting allows you to use capital losses to reduce taxable income in certain situations. Charitable giving can also provide an opportunity to save on taxes by using the deductions to offset income and estate taxes.

i.fidelity.com
Fidelity Representative 800-544-1916

For investors.

Not NCUA or NCUSIF insured. May lose value. No credit union guarantee.

Information provided in, and presentation of, this document are for informational and educational purposes only and are not a recommendation to take any particular action, or any action at all, nor an offer or solicitation to buy or sell any securities or services presented. It is not investment advice. Fidelity does not provide legal or tax advice.

Before making any investment decisions, you should consult with your own professional advisers and take into account all of the particular facts and circumstances of your individual situation. Fidelity and its representatives may have a conflict of interest in the products or services mentioned in these materials because they have a financial interest in them, and receive compensation, directly or indirectly, in connection with the management, distribution, and/or servicing of these products or services, including Fidelity funds, certain third-party funds and products, and certain investment services.

[1] Source: 2019 Fidelity Investor Insights Study. The 2019 Fidelity Investor Insights Study was an online, blind study conducted from August 6 , 2019, through August 26, 2019. It involved a total of 2,026 25-minute (on average) online interviews, with the sample provided by Brookmark, a third-party research firm not affiliated with Fidelity. The study was focused on understanding affluent investors' attitudes, goals, behaviors, and preferences related to investing, wealth management, and advice. Target sample included respondents across affluence levels, from $50,000 to more than $10 million in total investable assets, excluding any real estate or investments in 401(k), 403(b), pensions, or other employer-sponsored retirement plans.

[2] 2021 Tax Foundation.

Investing in a variable annuity involves risk of loss. Investment returns and contract value are not guaranteed and will fluctuate.

Please note that while a proxy for a fund in a taxable account may be available in a tax-deferred variable annuity, it will almost certainly not be exactly the same fund and therefore the pretax, pre-fee returns will differ, potentially by a significant margin.

Before investing in an annuity, there are a number of factors that need to be reviewed with a licensed agent to determine product suitability. In addition to tax efficiency, there are other important considerations to take into account.

Fidelity does not provide legal or tax advice. The information herein is general and educational in nature and should not be considered legal or tax advice.

Tax laws and regulations are complex and subject to change, which can materially impact investment results. Fidelity cannot guarantee that the information herein is accurate, complete, or timely. Fidelity makes no warranties with regard to such information or results obtained by its use, and disclaims any liability arising out of your use of, or any tax position taken in reliance on, such information. Consult an attorney or tax professional regarding your specific situation.

Fidelity Investments® provides investment products through Fidelity Distributors Company LLC; clearing, custody, or other brokerage services through National Financial Services LLC or Fidelity Brokerage Services LLC, Members NYSE, SIPC.

604477.16.0 1.943817.111