

# Developing an Effective Income Strategy

Consider investor portfolios from different perspectives

Not FDIC Insured • May Lose Value • No Bank Guarantee

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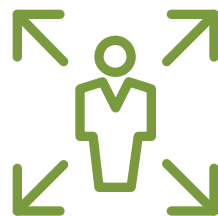
FIDELITY INSTITUTIONAL ASSET MANAGEMENT<sup>®</sup>



# A Three-Pronged Approach to Constructing Portfolios



**Practical**



**Emotional**

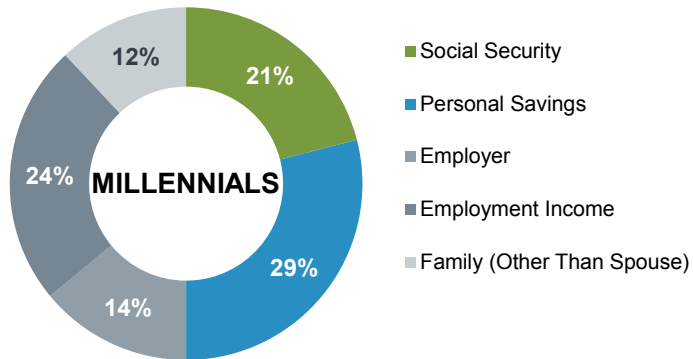
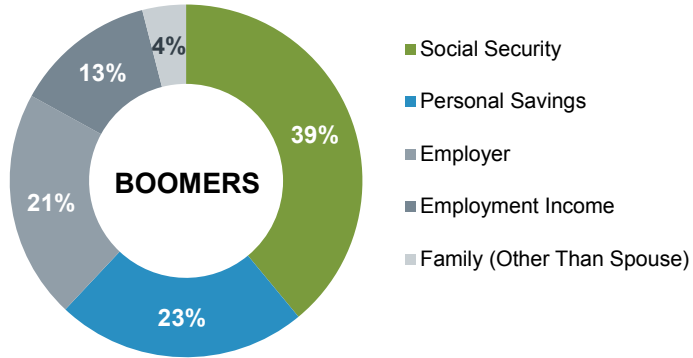


**Mathematical**

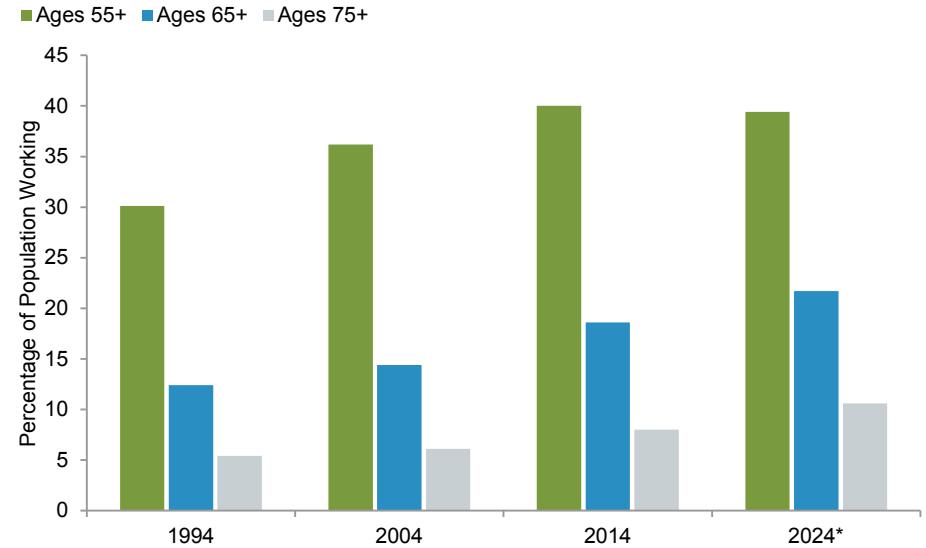
Guarantees are subject to the claims-paying ability of the issuing insurance company.

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# Keeping the Practical in Mind: Retirement income—today and tomorrow



## MORE RETIREES ON TRACK TO WORK LATER IN LIFE



\* Projected.  
Source (right): Bureau of Labor Statistics, December 2015.

Source (left): 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:

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



- An average couple can expect health care expenses of **\$280,000** in retirement; this amount is projected to grow 5.8% annually<sup>1</sup>
- For married couples with both spouses age 65, there is a **50% chance** of one spouse living to age 92<sup>2</sup>
- **Nearly 20%** of individuals over age 65 are working full time, up from just over 10% in 2000<sup>3</sup>

<sup>1</sup> Estimate based on a hypothetical couple retiring in 2018, 65 years old, with life expectancies that align with Society of Actuaries' RP-2014 Healthy Annuitant rates with Mortality Improvements Scale MP-2016. Actual expenses 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 Costs 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.

<sup>2</sup> Source: Social Security Administration. Figure assumes a person is in good health.

<sup>3</sup> U.S. Bureau of Labor Statistics, 2016.

# Keeping the Practical in Mind:

## Variable annuity with a protected income feature

### A variable annuity with a protected income feature may:

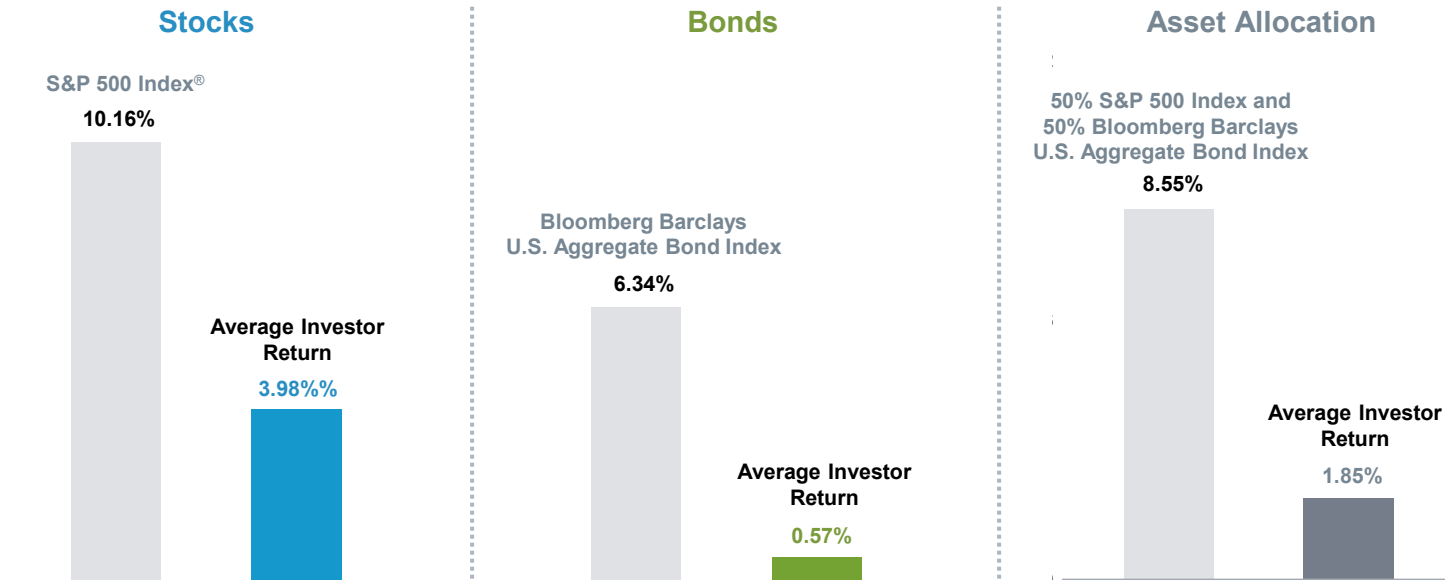
<b>Reliability</b>	<b>Predictability</b>	<b>Higher return Potential</b>
<ul style="list-style-type: none"><li>• Improve total portfolio income reliability</li></ul>	<ul style="list-style-type: none"><li>• Provide predictability by deriving income from an asset category at a known value, point in time, and period of time</li></ul>	<ul style="list-style-type: none"><li>• 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</li></ul>

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# Keeping Emotions in Check:

## The average investor's portfolio consistently underperforms

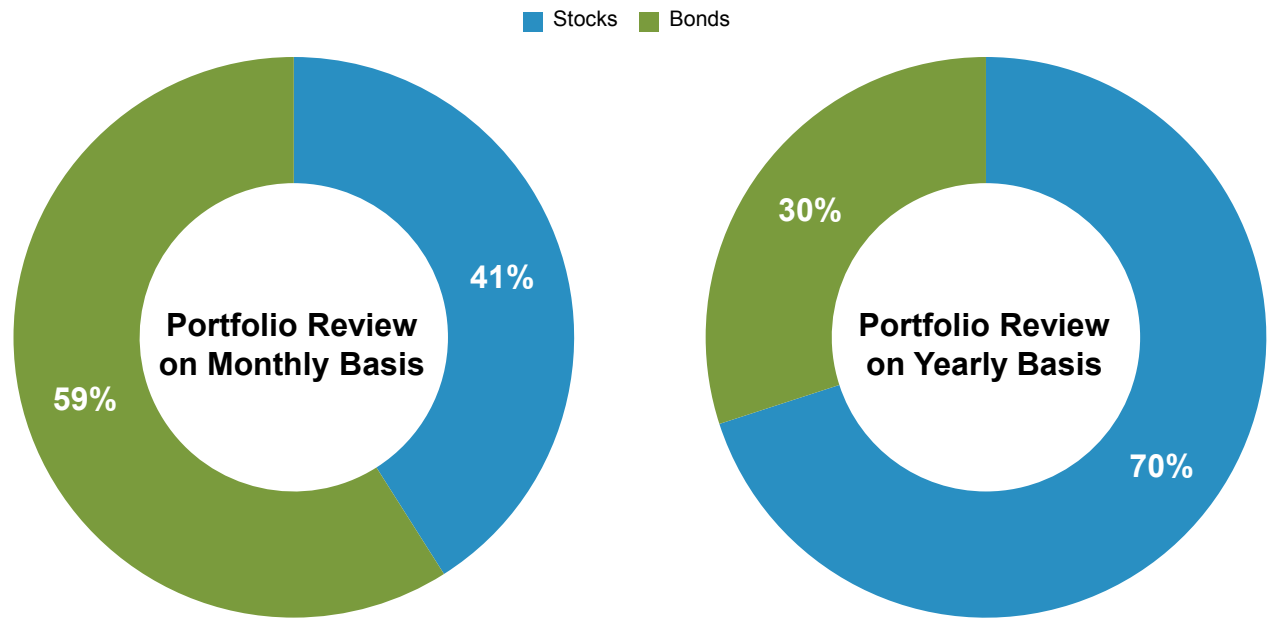
### AVERAGE ANNUAL RETURNS (1987–2016)



**Returns are for the period ending December 30, 2016.** 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. You cannot invest directly in an index. Past performance is no guarantee of future results.

# Keeping Emotions in Check:

The frequent portfolio evaluation can lead to risk-averse behavior

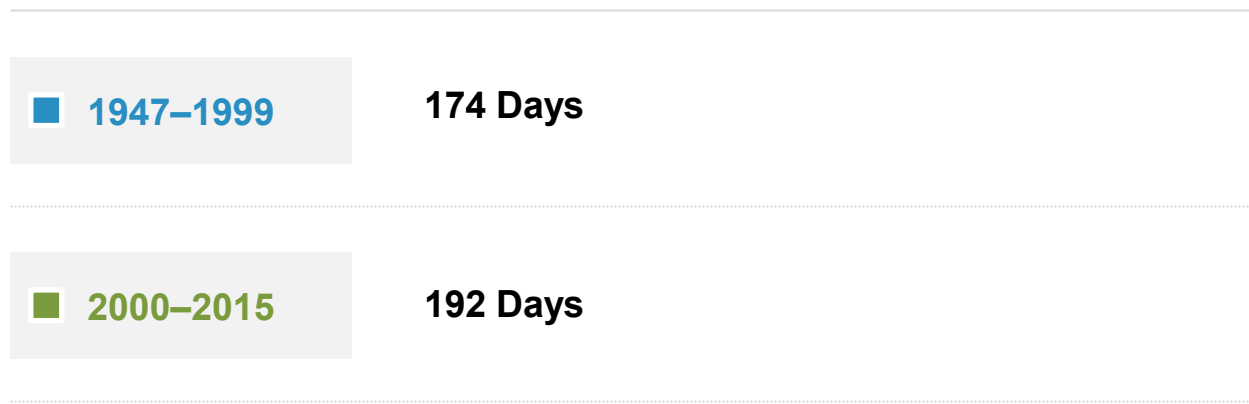


In the study, subjects were assigned simulated conditions that were similar to making portfolio decisions on a monthly or yearly basis.  
Source: Thaler, R. H., A. Tversky, D. Kahneman, and A. Schwartz. "The Effect of Myopia and Loss Aversion on Risk Taking: An Experimental Test." The Quarterly Journal of Economics 112.2 (1997), used by permission of Oxford University Press, Fidelity Investments (AART), as of 12/31/14.

# Keeping Emotions in Check:

## Variable annuities may help investors feel more at ease about market ups and downs

### Number of down trading days per calendar year with declines of >2%:



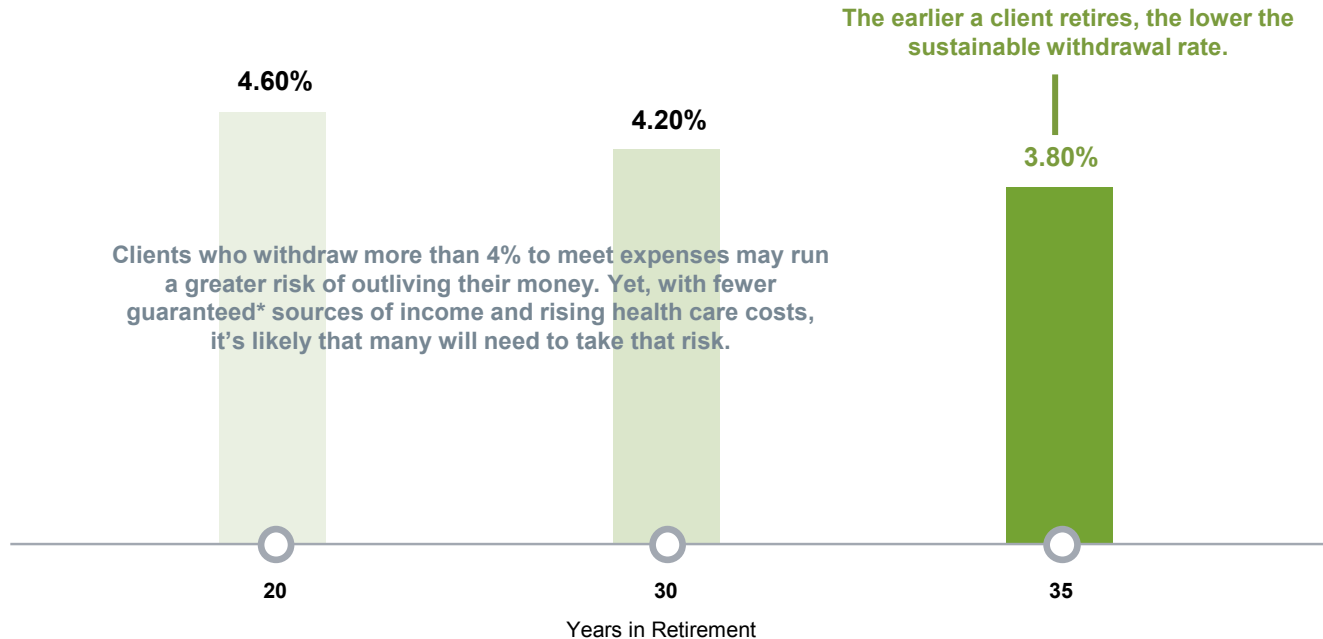
Past performance is no guarantee of future results. You cannot invest directly in an index. Index performance includes the reinvestment of dividends and interest income. EPS = earnings per share, P/E = price-to-earnings ratio. All EPS and P/E data are trailing unless otherwise noted. Standard & Poor's estimates used Q4 2013 EPS, forward EPS, and P/E. Source: Standard & Poor's, FactSet, Fidelity Investments AART, as of 11/30/15.



# Making the Math Work

The earlier a client retires, the lower the sustainable withdrawal rate

## MAXIMUM WITHDRAWAL RATE<sup>4</sup>



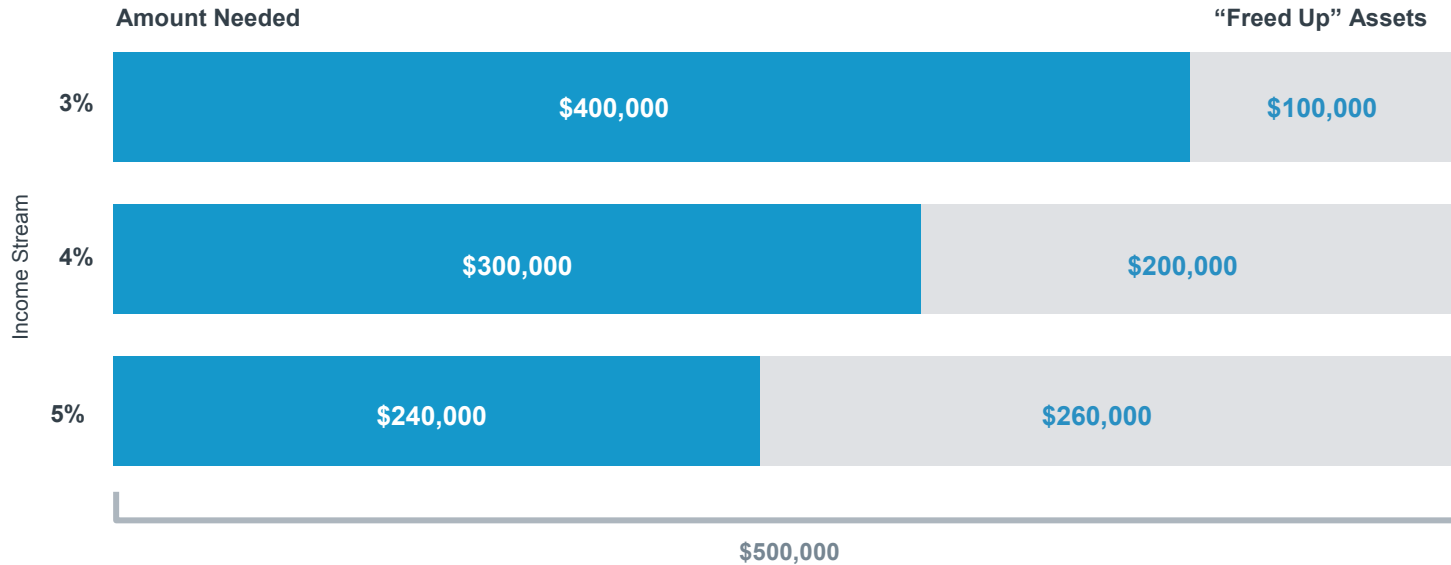
<sup>4</sup> For the illustration, 752, 692, and 632 overlapping planning horizons were analyzed for, respectively, 25-year, 30-year, and 35-year scenarios. Monthly returns data were used, starting from January 1926 and ending at July 2013. The bars show the maximum observed withdrawal rate for the three planning horizons such that the hypothetical portfolio did not run out of money in 90% of the scenarios. A balanced portfolio of 50% stocks, 40% bonds, and 10% cash was assumed for the analysis. Past performance is no guarantee of future results. The chart shows historical maximum sustainable withdrawal rates that produced a 90% success rate over various 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.

# 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.

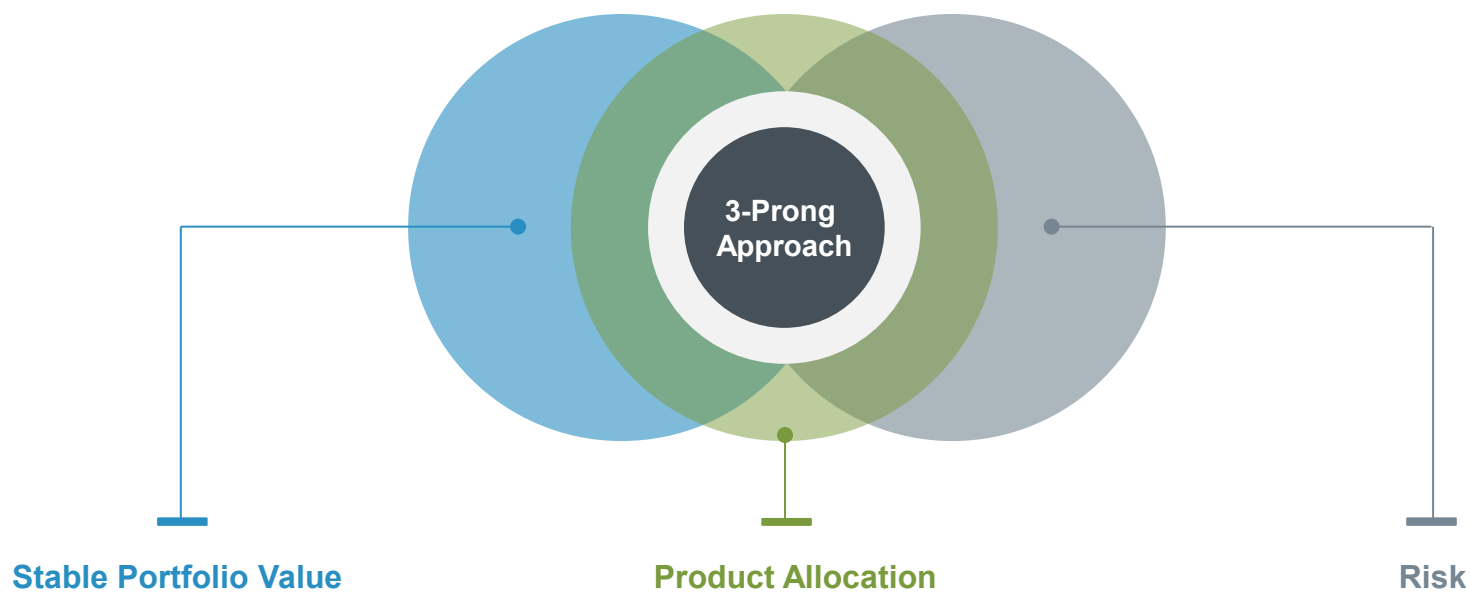
# Making the Math Work

## 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
<b>25</b>	<b>22%</b>	<b>\$(256,121)</b>	<b>-15%</b>	<b>\$2,569,610</b>

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, 2017

# Developing an effective income strategy to address the following challenges





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

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

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Monthly return data for stocks (domestic and foreign), bonds, cash, and inflation used various indexes as proxies. The historical range analyzed was January 1926 to July 2013. The indexes used were: stocks (domestic)—Ibbotson Associates (IA) SBBI S&P 500 Total Return (TR); stocks (foreign)—MSCI EAFE TR; bonds—IA SBBI U.S. Intermediate-Term Government TR; cash—IA SBBI U.S. 30-Day Treasury Bill TR. The stock component of each portfolio was selected to include 70% domestic and 30% foreign stock, from January 1970 to July 2013. Because MSCI EAFE data is available only from January 1970, the stock component before that time was 100% domestic equity (S&P 500 TR). Historical inflation rates were derived from the IA SBBI U.S. Inflation Index. Portfolios were rebalanced at the end of every month. No transaction costs were assumed for rebalancing, nor were any fees included. These costs would reduce portfolio returns. Neither asset allocation nor diversification ensures a profit or guarantees against a loss. All indexes are unmanaged. You cannot invest directly in an index. Returns also will generally be reduced by taxes.

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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**Before investing, consider the funds' investment objectives, risks, charges, and expenses. Contact your investment professional or visit [institutional.fidelity.com](http://institutional.fidelity.com) for a prospectus or, if available, a summary prospectus containing this information. Read it carefully**