Annuities:
Key concepts and considerations
Agenda

- Overview of annuities
- How annuities fit into a financial plan
- Fidelity’s approach
Overview of annuities

Two main compelling features of certain annuities

- Tax Deferral
- Guaranteed Income
A brief history of annuities

“Friends, Romans, Countrymen…” give us your lump sums – and you’ll receive X every year (annum) for as long as you live.

“True individual freedom cannot exist without economic security and independence.”

Guaranteed Income

Tax Deferral
How are annuities and insurance similar?

• All annuities can annuitize (generate guaranteed lifetime income)
• Only insurance companies can make the guarantees that annuities provide – no other financial institution can do this
• Insurance companies take on risk in exchange for premium payments
• Certain annuities allow you to transfer financial risk to the insurance company
Common types of annuity fees

1. **Mortality & Expense and Administrative**
   - for insurance guarantees, marketing, and administration

2. **Surrender**
   - for early withdrawals during the initial years of a contract

3. **Investment Management**
   - for management of the underlying investments in variable annuities

4. **Optional Benefits**
   - for optional features to customize an annuity to meet a specific need
Why would I consider an annuity?

**Saving for Retirement**
- Tax-deferred savings beyond 401(k) and IRA
- Help manage your tax exposure
- Control over when you pay taxes

**Transitioning to Retirement**
- Protection of retirement savings
- Growth potential
- Flexibility

**Living in Retirement**
- Lifetime income
- Protection from market volatility
- Continued growth potential
Why would I consider an annuity?

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**Deferred Variable Annuities with Living Benefits**
- Protection of retirement savings
- Growth potential
- Flexibility

**Indexed Annuities**
- Protection of retirement savings
- Continued growth potential

**Transitioning to Retirement**
- Lifetime income
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**Living in Retirement**
- Income Annuities

**Tax Deferred Annuities: Fixed or Variable**
- Tax-deferred savings beyond 401(k) and IRA
- Help manage your tax exposure
- Control over when you pay taxes

**Flexibility**
What are the potential downsides to annuities?

- Annuities can be an illiquid investment
  - Participants must understand the liquidity factor of their investments
- Since only insurance companies offer them, consider the strength of the company you select and its ability to meet future obligations
- Increased fees for the particular features and terms, than a stand alone mutual fund or investment
- “Many moving parts” – Be aware of features, benefits and costs associated with them.
  - A participant should educate themselves on the individual parts and restrictions of the annuity
Tax Deferred Annuities

Deferred Fixed Annuity

Guaranteed fixed rate of return for a set period of time, on a tax deferred basis

- Fixed rate of return, like a CD*
- Funds grow tax deferred

Key Questions:

- How long is the initial interest rate guarantee?
- What options are available when the rate guarantee period ends?
- Does the surrender period exceed the initial rate guarantee period?
- Will you need access to the assets?

* Fixed Deferred Annuities are not FDIC-insured — interest rates are instead guaranteed by the issuing insurance company.

Also, taxable amounts withdrawn from an annuity prior to age 59 1/2 may be subject to a 10% IRS penalty, in addition to ordinary income tax.
Tax Deferred Annuities

Deferred Variable Annuity

Variable rate of return based on underlying investment options, with tax-deferred investment growth potential

- Increase retirement savings without the IRS contribution limits associated with IRA and 401(k) plans
- Tax deferred investment growth potential – any earnings not taxed until withdrawn

Key Questions:

- What fund options are offered?
- What are the fees associated with the annuity and underlying investment options?
- Will you need access to the assets?

Investing in a variable annuity involves risk of loss - investment returns and contract value are not guaranteed and will fluctuate
Income Annuities

**Immediate Fixed Income Annuity**
- Guaranteed, predictable income payments that begin immediately
  - Guaranteed income for essential expenses
  - Choose income for set period of time, or a lifetime guarantee
  - Protection from market volatility

**Deferred Fixed Income Annuity**
- Guaranteed income, beginning on a future date
  - “Deferred” income start date translates into higher income payments in retirement.
  - Guaranteed lifetime income
  - Protection from market volatility

**Key Questions:**
- Will you need access to the assets in the future?
- Are there options for protection against inflation?

Immediate and Deferred Fixed Income Annuity provide little to no access to assets
Income Annuities

Immediate Variable Income Annuity

Guaranteed, lifetime income stream that begins immediately, with the potential to keep pace with inflation

- Growth potential
- Income payments will fluctuate along with market performance - payment amount could go up or down

Key Questions:

- Do you have other sources of predictable income to complement the variable income stream?
- Will you need access to these assets in the future?
Guarantees are subject to the claims paying ability of the issuing insurance company.

** Restrictions may apply. Taxable amounts withdrawn prior to 59½ may be subject to a 10% IRS penalty.
Deferred Variable Annuities with Living Benefits

Guaranteed Lifetime Withdrawal Benefit (GLWB)

Guarantee* of withdrawal amount for life, to start anytime you choose

• Guaranteed income regardless of market performance (contract value is not guaranteed)
• Growth potential
• Access to assets¹

Guaranteed Minimum Income Benefit (GMIB)

Guarantee* of fixed lifetime income in the future

• Guaranteed income regardless of market performance
• Growth potential
• Must annuitize to receive lifetime guarantee

Key Questions:

• Do the features offered meet your needs and are they worth the cost?
• Do you understand the product fees and how they work?

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

¹Excess withdrawals (which happen when you withdraw an amount greater than your guaranteed annual income payment or guaranteed lifetime withdrawal benefit (GWB) amount in a contract year) and any withdrawal prior to age 59½ may significantly impact the product guarantees and may affect the viability of the overall income strategy. For certain products, a surrender fee may also apply. Withdrawals of taxable amounts are subject to ordinary income tax, and, if made before age 59½, may be subject to a 10% IRS penalty.
Indexed Annuities

Indexed Annuities (aka Equity Indexed Annuities)

A type of tax-deferred annuity whose credited interest is linked to an equity index — typically the S&P 500. It guarantees a return of principal and potentially a minimum interest rate if held to the end of the surrender period.

• Upside potential
• Downside protection
• Gains are generally capped

Key Questions:
• What is the method used to calculate the gain in the index to which the annuity is linked?
• Is there a cap on upside potential and how does this cap impact your index returns?
• How much do you get back if you need the assets before the end of the surrender period?
Equity Indexed Annuities - FINRA Alert

- Fidelity has no plans to offer EIAs
- FINRA, the Financial Industry Regulatory Authority, recently issued an alert on EIAs
- Copies available
Fidelity starts with a plan

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Annuities available at Fidelity

Saving for Retirement
- Tax-deferred savings beyond 401(k) and IRA
- Help manage your tax exposure
- Control over when you pay taxes
- Fidelity Personal Retirement Annuity
- Deferred Fixed Annuities

Transitioning to Retirement
- Protection of retirement savings
- Growth potential
- Flexibility
- MetLife Growth and Guaranteed Income annuity (GLWB)
- Deferred Fixed Income Annuities

Living in Retirement
- Lifetime income
- Protection from market volatility
- Continued growth potential
- Immediate Fixed Income Annuity\(^1\)
- Fidelity Freedom Lifetime Income annuity\(^2\)

Annuities that are transparent, easy to understand, and provide true value

1. Immediate Fixed Income Annuities do not provide continued growth potential
2. Payment amount from Fidelity Freedom Lifetime Income annuity is not guaranteed and may fluctuate, and does not provide protection from market volatility
Four key takeaways

1. Annuities can be an important part of a financial plan
2. Make sure you are informed before investing in an annuity
3. Think Plan – not Product
4. Fidelity can help
Next steps

1. Make an appointment today with your Fidelity representative

2. Visit Fidelity.com for additional resources and tools

3. Sign up for educational Fidelity Viewpoints
Before investing, consider the investment objectives, risks, charges and expenses of the annuity and its investment options. Call or write to Fidelity or visit Fidelity.com for a free prospectus and, if available, summary prospectus containing this information. Read it carefully.

Equity investments involve more risk because their value will fluctuate according to their performance.

It is not possible to invest directly in an index. All indexes include reinvestment of dividends and interest income.

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