Deferred Fixed Annuities

Tax-deferred saving for retirement with a guaranteed rate of return

Fixed annuities available at Fidelity are issued by third-party insurance companies, which are not affiliated with any Fidelity Investments company. These products are distributed by Fidelity Insurance Agency, Inc., and, for certain products, Fidelity Brokerage Services LLC, member NYSE, SIPC. A contract’s financial guarantees are solely the responsibility of, and are subject to the claims-paying ability of, the issuing insurance company.
The Challenge

How can I reduce risk during times of market volatility?

Most investors know that having a well-diversified investment portfolio can help you weather the ups and downs of the market—especially over the long term. But the fact is, market volatility can be unsettling. To help reduce risk in your portfolio, you have many options, such as reducing your equity exposure or investing a higher percentage in fixed income products.

Fixed income products can help

If you are looking for fixed income, there are a number of investments to choose from, including money market funds, brokered CDs, individual bonds, and bond funds/ETFs. One additional product to consider is a deferred fixed annuity. Many investors underestimate the advantages of this type of annuity, which can provide tax deferral with the security of a guaranteed rate of return.

<table>
<thead>
<tr>
<th>Your objective:</th>
<th>Money Market</th>
<th>Brokered CDs*</th>
<th>Individual Bonds</th>
<th>Bond Funds/ETFs</th>
<th>Deferred Fixed Annuities</th>
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<tbody>
<tr>
<td>Growth Potential</td>
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<tr>
<td>Guaranteed Fixed Rate of Return</td>
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<td>Principal Preservation</td>
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<td>Flexibility</td>
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✓ Strong Alignment  ✓ Moderate Alignment

Note: The check marks above are intended to represent which product categories generally align with a desired objective. The check marks do not, however, precisely represent the features and benefits of specific products. Certain features and benefits are subject to product terms, exclusions, and limitations. Payments of interest and principal from fixed income products are subject to product terms and conditions and to the claims-paying ability of the issuer. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss.

*Subject to terms and conditions of the issuing bank. Brokered CDs may be insured by the Federal Deposit Insurance Corporation up to $250,000 (per account owner, per issuer). Your ability to sell a CD on the secondary market is subject to market conditions. See page 8 for additional information.

†For brokered CDs and deferred fixed annuities, growth potential is a function of the interest earnings potential of each product. For bond funds/ETFs and individual bonds, growth potential is a function of both capital appreciation and interest earnings potential. Individual bonds are assumed to be reinvested at maturity or sold before maturity.
One Solution

Reducing risk with deferred fixed annuities

If you are looking to protect a portion of your savings with the security of a guaranteed rate of return, while also deferring taxes, then a deferred fixed annuity may be right for you.

A deferred fixed annuity is a contract with an insurance company that guarantees a specific fixed interest rate on your investment over a set period of time—generally three to ten years. It is particularly geared to investors looking for additional retirement savings at a competitive rate of return without market volatility.

Benefits include:

<table>
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<th>Investment Guarantees</th>
<th>Value</th>
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<tr>
<td>Your savings will grow at a fixed rate, regardless of market volatility. At the end of the rate guarantee period, you will be entitled to your initial investment plus interest (less the impact of any withdrawals you may have taken during the guarantee period).1</td>
<td>No up-front sales charges or recurring fees (surrender charges may apply) and access to highly competitive rates in one place.</td>
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<tr>
<th>Choice and Flexibility</th>
<th>Tax Advantages</th>
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<tr>
<td>Choose the guarantee period length that fits your goals. With some deferred fixed annuities, you can take annual withdrawals of up to 10% of your contract value without incurring a surrender charge.1</td>
<td>Your earnings grow tax deferred until withdrawn with no IRS limit2 on the amount of your contribution, allowing you to save more than your 401(k) or IRA, which have limits. A deferred fixed annuity will also protect earnings from your current-year tax liability, potentially reducing overall tax payments. If purchased with qualified assets—for example, from your IRA or 401(k) via a transfer of assets—it is a nontaxable transaction.</td>
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1Some deferred fixed annuities have a market value adjustment (MVA), which generally applies if a client surrenders the contract or withdraws funds in excess of the free withdrawal amount before the end of the guarantee period. The amount the client receives will be adjusted based on interest rate conditions at that time. **Withdrawals of taxable amounts from an annuity are subject to ordinary income tax, and, if taken before age 59½, may be subject to a 10% IRS penalty.**

2The issuing insurance company reserves the right to limit contributions.

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Q  • What steps have you taken to address market volatility?
How It Works

A deferred fixed annuity as an alternative to a CD

In many cases, the deferred fixed annuity may not only defer but also reduce taxes compared with a CD or other investment held in a taxable account. With a deferred fixed annuity, all taxes on interest are deferred until funds are withdrawn from the account. In general, the longer the contract and the higher the marginal income tax rate, the greater the advantage of deferral. Also, the interest is credited daily to a deferred fixed annuity, so interest is automatically reinvested without taxation. Compared with a CD, which has simple interest in a taxable account, a deferred fixed annuity may allow you to make more on your investment.

Many investors underestimate the advantages of investing in a single-premium deferred annuity (SPDA) when considering their options. The hypothetical analysis below shows the advantage of an SPDA as compared with CDs in a taxable account if an investor earned a constant 2.5% for the displayed investment horizons. The investor is assumed to be at least age 59½ at the time of withdrawals. Had the investor been younger than age 59½ at the time of the annuity withdrawal, any gains would have been subject to a 10% tax penalty not reflected in this example.

HYPOTHETICAL EXAMPLE OF AFTER-TAX INTEREST RATE COMPARISON: CD VS. SPDA
2.5% Pretax Interest Rate; 22% Marginal Income Tax Rate

The gray bars show the after-tax yield on the taxable CD investment. Because there is no tax deferral, the after-tax yield is always 1.95%. The light-green bars show the after-tax yield for an investor in an SPDA whose marginal income tax rate is 22%. The advantage of tax deferral is quite small over a horizon of three years (0.01%). If the investor earned 2.5% for 20 years, the advantage would be 0.09%. However, the dark-green bars show the advantage for an investor whose marginal income tax rate starts at 22% but drops to 12% when he or she retires at the end of the investment horizon. In this case, the advantage is larger, 0.26%, with a three-year investment horizon, and reaches 0.30% at 20 years.

Changes in tax rates and tax treatment of investment earnings may affect the comparative results. Consider your current and anticipated investment horizon and income tax bracket when making an investment decision.

State and local taxes were not taken into account; if they were, the after-tax yields for both accounts would be lower.

Note that under the new tax rules for 2018–2025, married filing jointly investors who earn from $78,951 to $168,400 (after all deductions) while working, but less than $78,950 during retirement, would see their federal marginal income tax rate start at 22% and then drop to 12%. While most investors see a drop in their taxable income during retirement, this is not always the case. Some investors do not see any drop, and some even see an increase, as a result of some pensions or other income sources. In addition, a drop in income may or may not cause an investor to see a decrease in his or her marginal income tax rate. In the example above, if the couple’s income dropped from $130,000 to $80,000 after retirement, the marginal federal income tax rate would remain at 22%. Finally, changes in federal and/or state and local tax law could affect marginal rates, reducing or even eliminating the decline in the marginal income tax rate caused by the decline in taxable income.
How It Works—in a Portfolio

Deferred fixed annuities in an anchor strategy

With this approach, you invest (or “anchor”) some of your assets in a fixed annuity to guarantee a specified return on a portion of your principal and, depending on your situation, invest the remainder in either a taxable or tax-deferred investment that gives you exposure to equity investments for potential growth.

Hypothetical Example of an Anchor Strategy over a Five-Year Period

Let’s look at an example of an investor who is five years away from his or her investing goal and has $100,000 in savings. One possible strategy would be to invest the entire amount in a variable investment portfolio. Based on historical average markets of a balanced target asset mix (TAM), this may provide greater growth opportunity, however, the investor is completely exposed to market volatility. Another possible investment strategy is to consider anchoring half of their savings in a guaranteed fixed deferred annuity, while investing the other half in a taxable or tax-deferred account from which they can select from variable investment options with growth potential. As illustrated in the example below, this strategy helps reduce portfolio risk by providing the stability and protection of fixed returns for a portion of the assets, while creating the opportunity for the growth potential desired to help keep up with or outpace inflation with the other half.

### HYPOTHETICAL EXAMPLE OF $100,000 INITIAL INVESTMENT AFTER FIVE YEARS

- **Variable Investment Only**: $145,780
- **$129,460**
- **$72,690**
- **Anchor Strategy (50% Variable Investment, 50% Fixed-Rate Investment)**: $129,460
  - Hypothetical Value of a 2.5% Fixed-Rate Investment: $92,916
  - Hypothetical Value of a variable investment: $36,544

Average annual return of balanced TAM: 7.83%*

Lowest five-year period average annual return of balanced TAM: –6.18%*

Hypothetical Value of a 2.5% Fixed-Rate Investment: $56,570

*Based on historical returns from 1926–2018. See page 8 for additional details. Past performance is no guarantee of future results.

This hypothetical example is not intended to predict or project investment results. Your results will vary from this hypothetical example and your investments may even lose value. In considering any strategy, one should carefully consider their overall financial circumstances, personal life expectancy factors, investment strategy, inflation, tax impact, and estate objectives. Federal, state, and local taxes and fees or expenses were not taken into account in this example; if they were, the value of the investment would be lower.

*Based on historical returns from 1926–2018. See page 8 for additional details. Past performance is no guarantee of future results.

### Q

- How could you use an anchor strategy?
Appropriate Investors

Who may benefit most from a deferred fixed annuity?

A deferred fixed annuity is often best suited to investors who are interested in a tax-deferred fixed rate of return over a set period of time, and who also meet one or more of the following criteria:

- In or nearing retirement
- Subject to high federal, state, and/or local marginal income tax rates
- Plan to use the assets after age 59½

Deferred Fixed Annuities: Quick Facts and Features

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<tr>
<th>Feature</th>
<th>Details</th>
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<tbody>
<tr>
<td>Flexibility</td>
<td>• Initial interest rate guarantees from 3 to 10 years</td>
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<td></td>
<td>• Opportunity to take annual withdrawals of up to 10% of your contract value without incurring a surrender charge. (Not available with all products.)</td>
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<tr>
<td>Options at end of rate guarantee</td>
<td>• Renewing or exchanging your annuity</td>
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<td>• Moving the assets to an IRA (qualified dollars only)</td>
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<td></td>
<td>• Using the assets to generate an income stream</td>
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<tr>
<td>How to fund your annuity</td>
<td>• Use money from a retirement account [401(k), IRA] via a transfer of assets; a tax-free event</td>
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<td></td>
<td>• Use current savings, bonus, inheritance, etc.</td>
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<td>• Exchange an existing annuity to a deferred fixed annuity tax free with a 1035 Exchange³</td>
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<tr>
<td></td>
<td>• Replace a fixed investment such as a maturing bond, CD, or stable value fund</td>
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³Before exchanging, check with your current provider to see if it will assess a surrender charge, and also consider the existing benefits and features you may lose in an exchange, which may be of particular importance in poor market conditions.

Q • How could a deferred fixed annuity fit in your portfolio?
The Fidelity Insurance Network®

Selecting a fixed annuity just got easier

Choosing a fixed annuity can be a complex and time-consuming process. Pricing can vary widely depending on the features you’ve chosen, and there are many different options available. It can be challenging to get the right mix for your situation.

With The Fidelity Insurance Network®, you have access to a network of reputable insurance providers all in one place. Since an annuity’s guarantees are only as strong as the insurance company providing them, you should consider the strength of the company you select and its ability to meet future obligations. Financial strength ratings are available from your Fidelity advisor on each of the company’s profiles and on Fidelity.com.

Fidelity has streamlined and simplified the process of comparing prices and selecting the products, companies, and features. And, perhaps best of all, we can help you decide which type of annuity could help meet your retirement goals.

With The Fidelity Insurance Network, you will receive:

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<tr>
<th>Access</th>
<th>Choice</th>
<th>Guidance</th>
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<tr>
<td>• Easy access to a range of reputable companies</td>
<td>• A broad choice of products that can be tailored to meet your needs</td>
<td>• Planning-based approach</td>
</tr>
<tr>
<td>• Deferred fixed annuities, also known as single-premium deferred annuities (SPDAs)</td>
<td>• A selection of competitive products, all in one place</td>
<td>• Access to the tools and resources needed to help you make an informed decision</td>
</tr>
<tr>
<td>• Other types of annuities such as fixed income annuities and deferred income annuities</td>
<td>• The ability to directly compare annuity choices</td>
<td>• Planning and guidance support from a Fidelity advisor, who can help you address your retirement needs</td>
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</table>
This information is intended to be educational and is not tailored to the investment needs of any specific investor.

Additional information regarding brokered CDs on page 2: Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss. Your ability to sell a CD on the secondary market is subject to market conditions. If your CD has a step rate, the interest rate may be higher or lower than prevailing market rates. The initial rate on a step-rate CD is not the yield to maturity. If your CD has a call provision, which many step-rate CDs do, the decision to call the CD is at the issuer’s sole discretion. Also, if the issuer calls the CD, you may obtain a less favorable interest rate upon reinvestment of your funds. Fidelity makes no judgment as to the creditworthiness of the issuing institution.

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

Additional information regarding the hypothetical example on page 5: Data Source: Ibbotson Associates, Inc., 2018. Average and worst returns based on time period from 1926–2018. Past performance is no guarantee of future results. Returns include the reinvestment of dividends and other earnings. Domestic stocks are represented by the S&P 500® Index. The S&P 500 Index is a registered service mark of The McGraw-Hill Companies, Inc., and is a widely recognized, unmanaged index of 500 U.S. common stocks. Bonds are represented by the Intermediate-Term U.S. Government Bond Index, which is an unmanaged index that includes the reinvestment of interest income. Short-term instruments are represented by U.S. Treasury bills, which are backed by the full faith and credit of the U.S. government. It is not possible to invest directly in an index. Foreign stocks are represented by the Morgan Stanley Capital International Europe, Australasia, Far East Index for the period from 1970 to the last calendar year. Foreign stocks prior to 1970 are represented by the S&P 500 Index. The purpose of the target asset mixes is to show how target asset mixes may be created with different risk and return characteristics to help meet an individual’s goals. You should choose your own investments based on your particular objectives and situation. These target asset mixes were developed by Fidelity Investments.

In general, the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Fixed income securities also carry inflation risk, liquidity risk, call risk, and credit and default risks for both issuers and counterparties. Unlike individual bonds, most bond funds do not have a maturity date, so holding them until maturity to avoid losses caused by price volatility is not possible.

Fidelity does not provide legal or tax advice. The information herein is general in nature and should not be considered legal or tax advice. Consult an attorney or tax professional regarding your specific situation.

You could lose money by investing in a money market fund. Although the fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. The Fund may impose a fee upon the sale of your shares or may temporarily suspend your ability to sell shares if the Fund’s liquidity falls below required minimums because of market conditions or other factors. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Fidelity Investments and its affiliates, the fund’s sponsor, have no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.

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