Getting Started with Retirement Income Planning

Key Topics Covered:

1. The five key financial risks you may encounter in retirement
2. How to plan and manage your different expenses and income streams in retirement
3. Options to consider to help maximize your income sources

Congratulations! You're getting ready to retire and start out on the next stage of your life. You've worked a lifetime to get here, and what's to come can be exciting and fulfilling—as you finally get to live life on your terms and timetable.

Like any great journey, it's important to have a plan now. Retirement is not the time to "wing it," as you will increasingly be relying on your retirement savings and you will have fewer opportunities to make up for mistakes or surprises.

By developing a retirement income plan, you can help make sure that you are protecting yourself against the key retirement risks, that you are prepared to pay for the type of retirement you would like, and that you are maximizing your investments and other income sources.

No one can predict the future, but a proper retirement plan will consider your income, expenses, assets, and market fluctuations over time, and stress-test them to help identify how much you may need to have in savings to help last throughout your retirement. You can help yourself prepare for retirement by using the three-stage approach discussed here.

Fidelity Retirement Income Advantage® | PLANNING INVESTING INCOME MANAGEMENT

Fidelity INVESTMENTS

1 Understand and plan for the five key risks to your retirement

Retirement is an exciting transition. You're traveling down a new road, with new opportunities and challenges. Careful planning can help you manage the risks so many retirees face.

1. Making sure you don't outlive your savings

We know we won't live forever, but chances are good we'll live longer than we think. There's a 50% chance that one member of a healthy 65-year-old couple will live to be 92.

Source: Annuity 2000 Mortality Table, American Society of Actuaries. Figures assume you are in good health. For illustrative purposes only.

What to do: Plan for how long you may live, not average life expectancy, when making your retirement calculations.

2. Keeping up with inflation

Inflation affects you two ways. It increases the future costs of things, and it has the potential to reduce the value of your assets. Even with just a 3% inflation rate, you'll need twice as much money in 25 years to equal the buying power you have today.

What to do: Plan for inflation. When you're building your portfolio, be sure to consider investments with the potential to outpace inflation.

3. Managing how quickly you spend your savings

Don't let market conditions at the time of your retirement determine how much you will be able to withdraw throughout your retirement. Use a conservative rate that may be able to withstand both bull and bear markets.

What to do: Use as conservative a rate as possible when figuring how much you can withdraw each year, especially during the early years of retirement.

4. Diversifying your investments wisely*

The rules of investing still apply during retirement. Asset allocation is an important factor in the success of an investment strategy. Many investors lower their potential investment returns by being too cautious and reducing their stock holdings too much, driven by the fear of being caught in a down market and losing money.

What to do: Review your asset allocation and portfolio and make sure that you are comfortable with the level of risk you may have. Evaluate your personal situation with a Fidelity Representative or the Fidelity Portfolio Review** online tool to help determine the best asset allocation for you.

5. Saving enough to cover the ever-rising cost of health care

Fidelity estimates that a couple retiring in 2007 at age 65 should plan on spending at least $360,000[†] out of pocket over the course of retirement to pay for medical expenses not covered by Medicare.

What to do: Increase your anticipated medical expenses when doing your calculations.

* Remember that neither diversification nor asset allocation ensures a profit or guarantees against loss.
† Fidelity Employer Services Company, Benefits Consulting 2007
** Portfolio Review is an educational tool.

2 Plan and manage your retirement income and expenses

The next step in retirement planning is to identify and categorize your expected income and expenses.

Expenses

During retirement, you will have two major categories of expenses—essential expenses ("must haves") and discretionary expenses ("would like to haves")

Essential expense examples

- Mortgage/rent
- Food/groceries
- Health care
- Car payments/insurance
- Utilities
- Clothing

Discretionary expense examples

- Travel/vacation
- Gifts
- Donations
- "Everyday luxuries" — dining out, golf, etc.

Income

Similarly, you may have up to three categories of income in retirement—reliable income, investments, and employment income. It is increasingly common for retirees to generate additional cash flow through part-time work or alternative careers. However, the focus here will be on managing reliable income and investments.

Reliable income examples — This covers stable income that you can depend on throughout retirement, and this typically includes:

- Social Security
- Pensions
- Income annuities

Investments — You've been saving for retirement for years, and now you will rely increasingly on your investments in retirement. You may have the potential to generate some income from interest, dividends, and capital gains on your savings, but you will also likely be converting your savings/assets into income during your retirement. Common investments are:

- Retirement savings [401(k), 403(b), IRA, etc.]
- Mutual funds
- Stocks
- Bonds
- Real estate
- Tax-deferred annuity

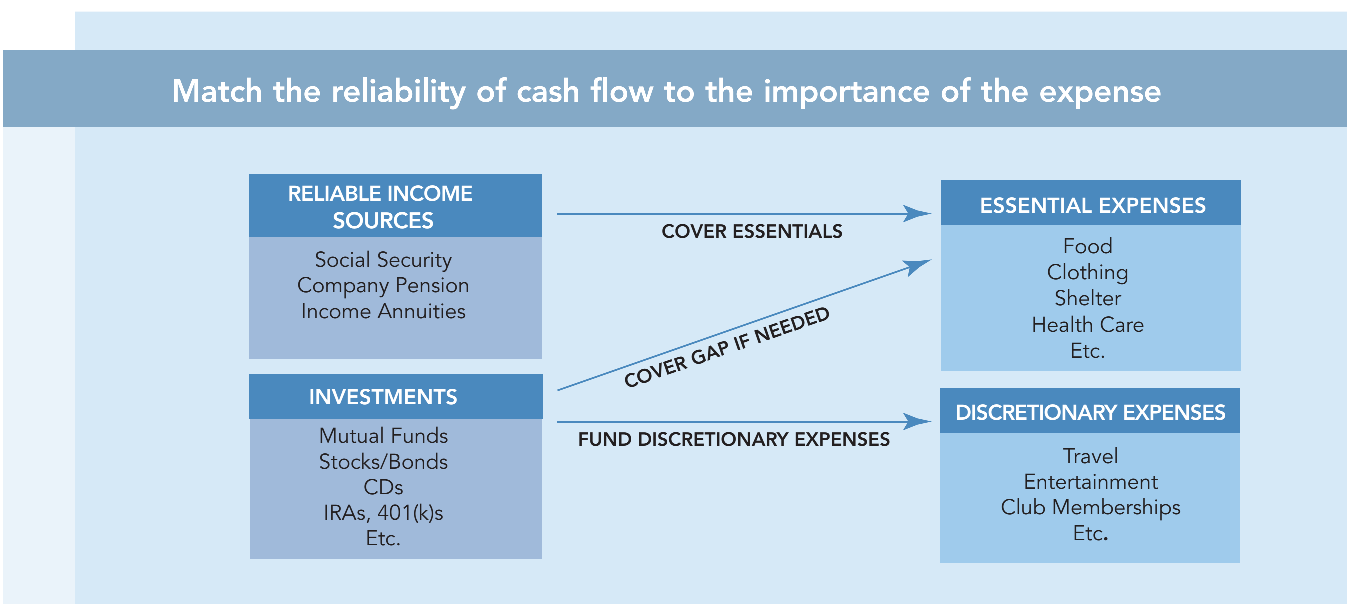
Match income and expenses based on priority and certainty

Essential expenses are expenses that you know you will have, while reliable income sources represent income that you know you will receive. Thus, in most cases, it is best to make sure that essential expenses are met first, because these are your "must haves." Do this by matching your reliable income to essential expenses.

If you have a shortfall, you will either have to reduce expenses or rely on income from working and your investments/savings to cover the gap. If you a have a surplus, you can use the "extra" money to cover your discretionary expenses.

If you can cover both discretionary and essential expenses using your reliable income throughout retirement, you're in great shape! However, most people will have to tap some of their investments/savings to cover their expenses for at least part of their retirement and this is one of the areas where Fidelity can help.

The Fidelity Retirement Income Planner* is an interactive tool you can complete on your own, or with one of our representatives, to develop a plan. This tool will guide you step by step through the process and ask you specific questions on your retirement expenses, income, and current assets to develop a complete picture. The tool then employs a sophisticated analysis that estimates the impact of inflation over time, and also runs hundreds of different market scenarios to stress-test your retirement plan and help ensure your success. Please see page 12 for additional information on the Fidelity Retirement Income Planner Tool.



This is for illustrative purposes only.

* Retirement Income Planner is an educational tool developed and offered for use by Strategic Advisers, Inc., a registered investment adviser and a Fidelity Investments company.

3 Maximize your income sources

You should consider options to make the most of your expected retirement income. In this section we discuss strategies for maximizing your reliable income streams and income from your investments.

Maximizing reliable income

Social Security

Social Security and company pensions are the two most common forms of reliable income. But just how much income these produce often depends on the decisions you make.

Social Security — when to start collecting

Remember getting those statements from the Social Security Administration in the mail? They estimated different benefit amounts at age 62, at your "full retirement age," and at age 70. That's because when you start collecting will affect how much you'll receive.

For some retirees, it may be better to collect earlier, even though they'll receive a smaller monthly benefit payment. Others may want to hold out even longer for potentially larger benefit payments.

Let's review each of your options:

Option 1: Wait until you're eligible for full benefits.

According to federal guidelines, you'll receive the full Social Security benefit if you wait to start collecting until the "full" retirement age. That age is currently somewhere between age 65 and age 67, depending on the year you were born.

You may want to consider this option if:

- You are still working. Remember, if you haven't reached full retirement age, benefits may be reduced significantly or eliminated if your earned income is above certain limits.
- You're retiring early and expect to live a long life—and can rely on other sources of income until you reach the full benefit age.

When are you eligible for full Social Security benefits?

Year you were born	Your full retirement age
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943–1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

Source: Social Security Administration as of 2008.

Option 2: Start collecting earlier

You can collect your Social Security benefits as early as age 62, although the monthly benefits you receive may be reduced by up to 30%. Exactly how much less you'll receive per month depends on how early you collect (see the chart below).

You may want to consider this option if:

- You need or want to retire early and need the money to meet your immediate needs.
- You haven't stashed much away in retirement savings plans like a 401(k) or IRA. Collecting Social Security early may be better than tapping into other tax-deferred assets too soon, which could force you to deplete them too fast. Although your Social Security benefit will be reduced, it will continue for life.
- You don't expect to live past "life expectancy" (88 years and 9 months or 85 years and 9 months for a healthy 65-year-old female or male, respectively). Just remember that if you do start collecting early—and end up outliving your expectations—you may be forced to get by on a reduced benefit for a potentially extended time frame.

Option 3: Further defer payments.

You don't have to start collecting at your full retirement age—you could defer your payments until age 70. For every year you delay payments until age 70, your monthly Social Security payments could increase by approximately 5% to 8%.

You may want to consider this option if:

- You have other sources of income, like wages from a job or an employer's pension, and don't need to rely on Social Security to pay your bills.
- You expect to live a long, healthy life—thanks to your family's own history of longevity and/or ongoing medical advances. Remember, the longer you can wait up to age 70, the higher the monthly benefit you'll receive for the rest of your life.

Social Security's age/income tradeoff for someone who stops working at age 62 and starts collecting at age shown

Start collecting Social Security at this age:	62	66 (full retirement age)	70
Receive this much initially per year:	$15,888	$21,181	$28,821
Live to age 70, and receive a total of:	$127,104	$84,736	$0
Live to age 80, and receive a total of:	$285,984	$296,576	$288,206
Live to age 90, and receive a total of:	$444,864	$508,416	$576,412

Note: Full retirement age is 66. For a person who is already 62, the full retirement age is also 66.
Source: Fidelity Research Institute, "Beyond Conventional Wisdom: New Strategies for Lifetime Income." These hypothetical charts are for illustrative purposes only. The Social Security benefits above are based on one person's hypothetical work history. It assumes the following: 1) person age 55 in 2006 with a full retirement age of 66; 2) person has pretax income of $75,000 in 2006 (previous and future years' earnings are estimated by the Social Security Administration Online Benefit Calculator), all subject to Social Security taxes; 3) all benefits are shown in today's dollars, pretax; 4) once benefits begin, there is no reduction in benefits due to earned income on or before the full benefit age; 5) cumulative benefit amounts are calculated as initial benefit amount times number of years. The cumulative total is not a future savings balance from investing Social Security retirement benefits received; and 6) taxes are not taken into account. If they were, amounts would be lower. Benefit estimates were obtained from the Social Security Administration's Online Benefit Calculator at www.ssa.gov. The calculator is updated periodically.

Pensions

Common pension choices — lump sums and spousal support

If you are eligible to receive pension income from your employer, you'll want to think carefully about how to make the most of this valuable resource.

Your employer's pension plan determines how much your payments will be—generally based on your years of service, your salary over the course of your employment with the company, and your final salary. Typically, you have some control over how these payments are structured.

Decision 1: Take it over time or all at once.

Many pension plans allow you to receive periodic annuity payments for as long as you or you and your spouse live, or to take your pension as one lump-sum distribution into an IRA. But there is always a tradeoff. If you take your pension in a lump-sum distribution, your one-time payment may end up being less than your cumulative payments over a lifetime—depending on how long you live and how you invest that sum.

Consider choosing regular payments if:

- Longevity runs in your family, and you and/or your spouse are likely to live beyond your projected life expectancy.
- You're confident that your former employer or the financial firm paying your pension benefits has the financial strength to continue providing your pension payments.

Consider choosing a lump sum distribution into an IRA or other investment vehicle if:

- You're confident you have other sources of income to cover your essential expenses, or you don't anticipate living past your life expectancy.
- You want or need more access to your pension assets.
- You are comfortable managing your own investments or you believe that you may be able to generate more income by moving your lump-sum pension payment into other investments, like an income annuity from another provider, or investing it in other types of investments.
- You believe that your former employer may not have the financial strength to continue providing your pension payments.*

* Note: Even if your employer defaults on its pension obligations, your income may still be guaranteed by the federal Pension Benefit Guaranty Corporation up to certain limits. Check to see if your pension has this coverage.
Company pension is subject to the claims-paying ability of the company. In case of insolvency, the federal Pension Benefit Guaranty Corporation (PBGC) may replace some or all of the pension income up to certain limits.

Decision 2: Continue payments to your spouse — or not.

If you're married, most defined benefit plans will automatically provide your spouse with survivor benefits. However, if your spouse indicates in writing that he or she wishes to waive the benefit, the monthly benefit payment you receive will increase.

Many plans allow you to elect the percentage of your benefit you'd like your spouse to continue to receive after you die, such as 100%, 75%, or 66 2/3%. The lower the specified percentage your surviving spouse will receive, the higher the monthly benefit payment you'll receive while you're alive.

It's important to consider the financial resources that will be available to your spouse after you're gone. Many people think their expenses will go down drastically when a spouse dies. But they often find that their financial obligations do not change that much — although their income may.

Consider choosing payments only for yourself if:

- Your spouse is adequately covered by other sources of lifetime income and will waive or reduce survivorship benefits to help maximize the payments you receive while you are alive.
- Your spouse may not expect to outlive his or her life expectancy, given family history or personal health.

Consider choosing survivorship payments if:

- You are willing to take a reduced monthly benefit now in return for knowing that your spouse will continue to receive a pension benefit after your death.

Again, a financial advisor can help you weigh these options based on your own situation.

Leveraging your investments to generate income

Increasingly, company pensions are being replaced by "defined contribution" plans such as 401(k)s and 403(b)s. As a result, more of your income in retirement may come from the money you have saved over the years.

As you plan for income, you should consider balancing at least four elements to ensure that your plan addresses your needs:

1. **Guarantees:** What level of security will specific strategies provide that your income will continue for life?
2. **Growth:** Will you continue to benefit from any investment gains, so you can keep pace with the rising cost of goods and services over an extended period of time?
3. **Flexibility:** Will you be able to access your assets without fees or penalties if you need to pay for unexpected expenses?
4. **Principal preservation:** Are you willing to spend part or all of your nest egg?

A note about principal preservation

While principal preservation is a common goal for many, it typically is not practical — as you may be retired for 30 years or more and you may eventually need to tap your assets.

A more realistic goal may be to preserve a portion of the portfolio, while using the rest to meet your retirement needs.

Please remember investing involves risk, including risk of loss.

Understanding common strategies for generating income in retirement

Here are three common strategies you might use to create income in retirement. In all likelihood, you won't rely on only one strategy. Instead, you'll probably mix and match key components to get the plan that is right for you.

- Systematic Withdrawal Strategy
- Bridge Strategy
- Interest and Dividends Only Strategy

Systematic withdrawal strategy

One way to help generate sustainable lifetime income is by setting up a systematic withdrawal plan (SWP) using conservative rates of withdrawal. Based on your age, you'll want to carefully consider what percentage of your assets you can withdraw each year.[1] Generally, a 65-year-old may not want to withdraw any more than 5% annually, but that percentage can vary based on market conditions as well as life expectancy.

If your withdrawal rate is conservative enough, your portfolio may last well into your 90s and beyond. But it requires discipline in both spending patterns and investment strategies to conserve your assets.

You may want to consider this option if:

- You want to use at least a portion of your savings as a source of income.
- You desire flexibility, access to your assets and a broad range of investment options.
- A conservative rate of withdrawal provides adequate income until your planning age.

How an income annuity can bolster your systematic withdrawal strategy

An income annuity is an insurance contract that turns a portion of your savings into a stream of income that's guaranteed to last as long as you live. In exchange for a one-time purchase, the issuing insurance company guarantees[2] that it will pay you (or your spouse) regular benefits for life. Used in conjunction with a systematic withdrawal strategy, an annuity can guarantee part of your income plan, and ensure that you have some predictable income even if you live longer than expected. Additionally the income from the annuity can reduce the pressure on other investments in your portfolio to create income, giving you flexibility to be more aggressive, potentially allowing more growth so your assets last longer.

Annuities come with many different features, which you must consider to determine if they are right for you. Typically, annuities deliver their maximum financial return to you the longer you live. If you are aware of any condition that might shorten your life expectancy, you may wish to consider other options.

[1] See Important Additional Information for the methodology used to determine the sustainable withdrawal rates and for an explanation of average and down market results.

[2] **Annuity guarantees are subject to the claims-paying ability of the issuing insurance company.**

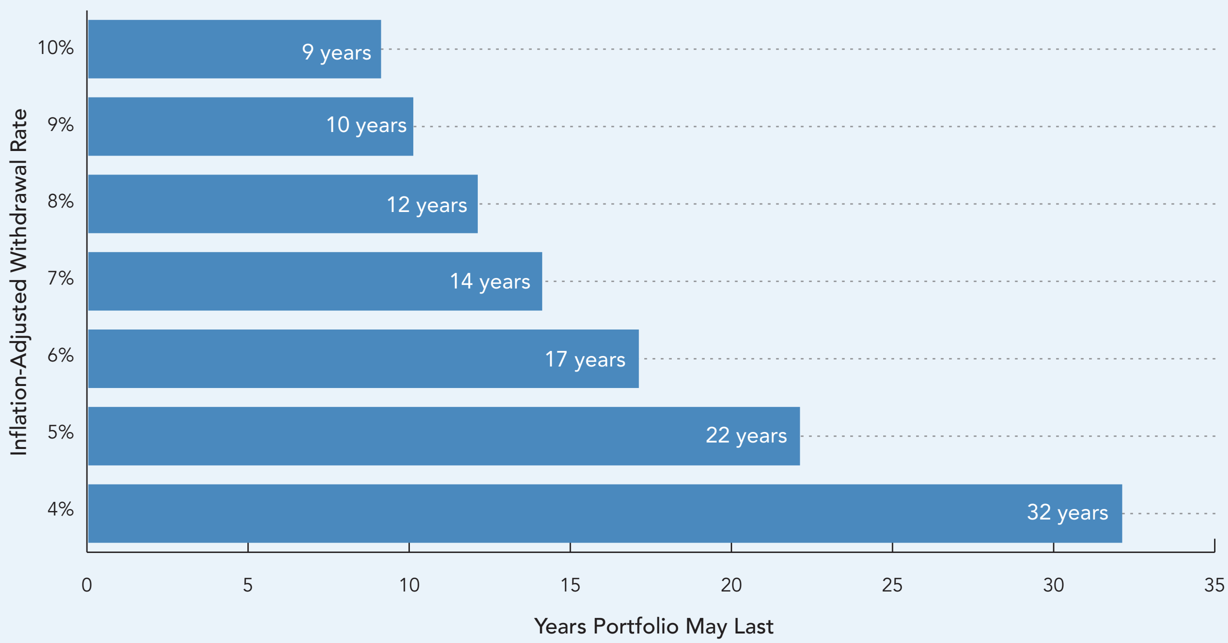
Know what a sustainable withdrawal rate is for your age

Fidelity believes that a sustainable withdrawal rate is a function of your age, planning time horizon, and asset allocation. Changes to any one of these variables can affect what is considered sustainable.

The chart below shows how long a portfolio of 70% stocks, 25% bonds, and 5% cash may last at annual withdrawal rates between 4% and 10%. As you can see, based on historical returns, the portfolio would last 32 years at a 4% withdrawal rate, but would last 22 years at a 5% withdrawal rate—quite a difference. Since you can never predict market returns, it makes sense to use as conservative a withdrawal rate as possible, especially early in your retirement.

CONSIDER WITHDRAWAL RATES

Too high a distribution rate can derail your plan



Source: Fidelity Investments. Hypothetical value of assets held in an untaxed portfolio of 70% stocks, 25% bonds, and 5% short-term investments and inflation-adjusted withdrawal rates as specified. Average rates of return for stocks, bonds, short-term investments and inflation are based on the risk premium approach. Please refer to the Important Legal Information page at the back of this paper for important information about the methodology used in this chart and index information. Actual rates of return may be more or less. The chart is for illustrative purposes only and is not indicative of any investment. Past performance is no guarantee of future results.
Illustration is derived from Fidelity's Retirement Income Planner tool. Please see page 12 for additional information on this tool.

Bridge Strategy

A bridge strategy may be appropriate for you if you are looking to use a portion of your portfolio to cover a certain period of time, or until another income stream becomes available (for example a pension or social security payments).

You may want to consider this option if:

- You are an early retiree who needs income until you are eligible for a pension or Social Security
- You are looking to generate additional income during a specific phase of retirement (for example, if you expect to travel in the early years of retirement)

Interest and Dividends Only Strategy

The interest and dividend strategy is built on the premise of preserving your principal, and essentially allows you to "live off the interest" of your portfolio. This is a powerful strategy if you want to leave behind a legacy, but is often impractical, as most people have simply not saved enough to meet their income needs throughout retirement without drawing down on the principal.

For example, if you have saved $1 million, and believe that you can generate a return of 5% annually, this strategy will provide you with $50,000 a year. Additionally, you must consider the buying power of your savings over the life of your retirement, as well as potential fluctuations in the value of your investments. Over a 30-year retirement, the real value of such a portfolio can be eroded by more than half. Finally, your purchasing power may further be eroded by any tax liabilities that you may have on this income.

You may want to consider this option if:

- You have a very large nest egg and low retirement expenses.
- Your personal health situation or family history indicates you may not live past average life expectancy. In this case, you are less concerned with inflation risk in later years.
- You want to retain the flexibility to access your assets. By using an interest and dividend strategy, you can always change your approach in later years, should you need to spend down some of your savings.

Summary

We've highlighted just a few of the decisions you'll want to factor in when planning your retirement. There is a lot to consider as you transition from accumulating assets to generating income.

Understand your income needs in retirement

- Understand and plan for the five key retirement risks
- Create a realistic budget based on the lifestyle you want to have
- Determine which expenses are essential and which are discretionary
- Create a plan using a tool such as Fidelity's Retirement Income Planner
- Test your plan

Make the most of your income sources

- Determine when to start collecting Social Security
- Decide how to structure pension payments you may be receiving

Identify and choose income strategies to convert your assets into income

- Consider setting up a conservative systematic withdrawal plan to help your assets last throughout your retirement
- Consider purchasing an annuity with a portion of your assets to increase your guaranteed lifetime income*
- Consider other products that may help to support your selected strategy

* Guaranteed lifetime income is subject to the claims-paying ability of the issuing insurance company.

Fidelity Is Here to Help

Let Fidelity help you evaluate the income-generating strategies available to you, and work with you to pull them together into a cohesive lifetime income plan that can provide the right level of security, growth, and flexibility to meet your individual needs. Fidelity has the tools and experience to help you make sound decisions for every aspect of creating and implementing your retirement income plan—including ongoing management and monitoring of your plan assets.

We offer a variety of resources for your income planning:

- **Specialized planning tools.** Among the many popular tools we offer is our Retirement Income Planner at **Fidelity.com/incomeplanner**, which allows you to develop a comprehensive plan online.
- **Financial planning consultants.** Call **1-800-FIDELITY** (343-3548) for your free consultation (in person or by phone).
- **Products and services:** Fidelity offers products and services you need to help you manage your investments and with-drawals through-out retirement, including a broad range of investment choices and professional money management solutions.

TAKE THE FIRST STEP

Contact a Fidelity Representative to assist you with your retirement income needs. Call **1-800-FIDELITY**.

Or visit **Fidelity.com**, where you'll find a wealth of information, including our Retirement Income Planner tool.

The Retirement Income Planner tool is an educational tool developed and offered for use by Strategic Advisers, Inc., a registered investment advisor and a Fidelity Investments company. It is not intended to serve as the sole basis for your investment or tax-planning decisions.

The tool's illustrations result from running a minimum of 250 hypothetical market simulations. The market return data used to generate the illustrations is intended to provide you with a general idea of how asset mixes have performed historically. Our analysis assumes a level of diversity within each asset class consistent with a market index benchmark that may differ from the diversity of your own portfolio. Please note that the projections do not reflect the impact of any transaction costs or management and servicing fees (except variable annuities); if these had been included, the projected account balances would have been lower. The Income Management Account works in conjunction with your retirement income plan created through Fidelity's Retirement Income Planning tool.

IMPORTANT: The projections or other information generated by Fidelity's Retirement Income Planner regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results. Results may vary with each use and over time.

Important Additional Information

For the chart, "Consider Withdrawal Rates," several hundred financial market return scenarios were run to determine how the asset mixes may have performed. A 90% confidence level was utilized indicating that the percentage of assets withdrawn annually could have been supported for the number of years noted in 90% of the historical scenarios that were generated. The estimated returns for the stock and bond asset classes are based on a "risk premium" approach. The risk premium for these asset classes is defined as their historical returns relative to a 10-year Treasury bond yield. Risk premium estimates for stocks and bonds are each added to the 10-year Treasury yield. Short-term investment asset class returns are based on a historical risk premium added to an inflation rate that is calculated by subtracting the TIPS (Treasury Inflation-Protected Securities) yield from the 10-year Treasury yield. This method results in what we believe to be an appropriate estimate of the market inflation rate.

Volatility of the stock, bond, and short-term asset classes is based on the historical monthly data from 1926 through the most recent year-end data available from Ibbotson Associates, Inc. Stocks, bonds, and short-term debt are represented by the S&P 500® Index, U.S. Intermediate Term Government Bonds, and 30-day U.S. Treasury bills, respectively.

The S&P 500® Index is a registered service mark of The McGraw-Hill Companies, Inc., and has been licensed for use by Fidelity Distributors Corporation and its affiliates. It is an unmanaged index of the common stock prices of 500 widely held U.S. stocks that includes the reinvestment of dividends.

Annual returns assume the reinvestment of interest income and dividends, no transaction costs, no management or servicing fees, and the rebalancing of the portfolio every year. It is not possible to invest directly in an index. All indexes include reinvestment of dividends and interest income.

Although past performance does not guarantee future results, it may be useful in comparing alternative investment strategies over the long term. Performance returns for actual investments will generally be reduced by fees or expenses not reflected in these hypothetical illustrations.

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