

# DETAILED METHODOLOGY

Retirement Income Planner

## DETAILED METHODOLOGY

### Retirement Income Planner

- 1. Overview

---

- 2. Key Risks

---

- 3. Historical Performance Analysis

---

- 4. Assets Included in the Tool

---

- 5. Tax Calculations and Assumptions

---

- 6. Social Security Benefits

---

- 7. Health Care Inflation Assumptions

---

- 8. What-If Scenarios

---

- 9. Explanations of All Concepts Represented in the Results

---

- 10. Fidelity-Suggested Asset Allocation

---

- 11. Income Sources and Annuity Assumptions

---

- 12. Investment Strategies in Action Plan

---

# RETIREMENT INCOME PLANNER METHODOLOGY

Updated April 2015

## 1. OVERVIEW

The primary objective of Fidelity's Retirement Income Planner ("the tool") is to help you identify the key risks you may face during retirement, then develop a plan to overcome those risks. The tool estimates how a portfolio similar to yours may grow both prior to and during retirement, using a historical performance analysis. The tool allows you to explore a variety of what-if scenarios to potentially improve your plan. If you are less than four years away from retirement or already retired, the tool calculates a model asset allocation for your consideration based on information you provide.

Throughout the tool, we suggest you make certain assumptions that are conservative, such as extended life expectancy and very conservative market performance. The tool is based on historical market performance, although the market's past performance does not predict how it will perform in the future. (See Historical Performance Analysis.) While your decisions regarding concepts such as asset allocation, selection of certain investment products, etc., should be made with an assessment of the risk and return trade-offs if market returns continue at historical averages, you should also have an understanding of what your plan offers if markets perform significantly lower than they have in the past. By adopting more conservative assumptions, you build a plan that has a greater potential to succeed regardless of risks. We encourage you to take control of your own retirement planning situation and expectations by building a sound plan.

**IMPORTANT:** The projections or other information generated by the tool regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. They are intended to provide a rough estimate of your plan over time. As assumptions or data you have entered change over time, so, too, will your results. Be sure to review your planning information periodically, as updates to the tool occur several times each year. Results may vary with each use and over time. Any data and account information you have included in the tool may also be included in certain other Fidelity tools.

### Limitations of Tools

It is important to remember that the tool is not intended to project or predict the present or future value of actual investments or actual holdings in your portfolio (or a selected allocation), or actual lifetime income. Also, the tool should not be used as the primary basis for any investment or tax-planning decisions. All calculations and results generated by the tool are based on the historical performance of certain asset allocation classes and are intended to provide you with a general idea of how a particular asset class mix similar to your portfolio or selected or modeled target asset mix has performed historically. The tool assumes a level of diversity within each asset class consistent with a specific market index, thus relatively large holdings of individual securities will result in a less accurate analysis. All calculations are purely hypothetical and will not affect your actual accounts. The historical performance analysis is intended only to be one source of information that may help you assess your retirement income needs. Remember, past performance is no guarantee of future results. Also, it is not possible to invest

directly in an index. Performance returns for actual investments will generally be reduced by fees or expenses not reflected in these hypothetical illustrations. Returns also will generally be reduced by income taxes. Certain income taxes have been assumed and estimated by the tool but may not reflect all taxes applicable to your specific situation. While reasonable efforts are made to use and maintain the most current actual rates, income tax brackets, and other tax rules for estimating taxes, there may be a time lag between when new actual tax rates, brackets, and other rules become effective and when the tool is updated to reflect them. See Tax Calculations and Assumptions for additional details on how the tool calculates estimated income taxes.

Retirement Income Planner is an educational tool.

### Who Should Not Use the Tool

The tool takes into account certain tax rules that are based primarily on the assumption that a person has only a U.S. tax liability. It also assumes that information about any spousal relationship will continue until the death of that person.

If you are in a same-sex marriage or non-married partnership, you should consider creating separate plans for each individual. The tool assumes that you and the "spouse/planning partner" can file a federal tax return as "Married Filing Jointly." It also assumes that you and the "spouse/planning partner" qualify for certain Social Security benefits, transfer-tax marital deductions, and other benefits to which only individuals qualifying as "spouses" under federal tax or other law may be entitled. These assumptions may not be appropriate in the context of planning with "planning partners," and the tool results may not therefore be appropriate if "planning partner" rather than "spouse" information is entered. If you are in any of the following situations, you may want to consult your tax advisor or a Fidelity Representative before using the tool. The outputs may not be applicable if you:

- Have a foreign tax liability
- Are subject to alternative minimum tax (AMT)
- Are subject to the Medicare surtax on investment income
- Are in court/legal proceedings (divorce, probate, etc.) where final asset amounts are in question

### Household Retirement Status

For those people who indicate they are four or more years from retirement, based on subtracting their current age from their retirement age, the tool considers their status to be Accumulators. For people less than four years away from retirement but not yet retired, the tool considers their status to be Preretirees. People who are retired are considered Retirees. Certain tool functionality is available based on the life stages of the people for whom the plan is designated. If a person is planning with a spouse, and the individuals are in different life stages (e.g., a Preretiree and an Accumulator), the tool assumes a collective household using the later life stage—in this example, a Preretiree.

Note: If your spouse is not retired, but not currently working, enter the age at which he or she plans to retire.

Retirement Income Planner ("the tool") is an educational tool developed by Strategic Advisers, Inc. (SAI), a registered investment adviser and a Fidelity Investments company. The tool is offered to existing and prospective brokerage customers and workplace savings customers by Fidelity Brokerage Services LLC (FBS), Member NYSE, SIPC. Fidelity Brokerage Services is a Fidelity Investments company and an affiliate of SAI.

## 2. KEY RISKS

While you may face numerous risks in retirement, the tool helps you identify and monitor your retirement income plan against five key retirement risks. These key risks are identified and assessed throughout the tool based on the information you provide. Key risks are color coded using the following system: red indicates a significant level of risk, yellow indicates some risk, and green indicates that your risk is accounted for.

Each of the key risks and how we assess them are described below.

### • **Outliving Your Retirement Assets**

Green—You (or you and your spouse/planning partner) are planning at least to your 25% longevity age (the age at which 25% of healthy individuals of your age and sex would still be living).

Yellow—You (or you and your spouse/planning partner) are planning to an age within seven years of your 25% longevity age.

Red—You (or you and your spouse/planning partner) are planning to an age that is more than seven years younger than your 25% longevity age.

### • **Health Care Expenses**

Green—You are planning for both health care expenses and long-term care in retirement.

Yellow—You are planning for either health care expenses or long-term care in retirement.

Red—You are not planning for health care expenses or long-term care in retirement.

### • **Impact of Inflation**

Green—You are using the default inflation rate assigned by the tool.

Red—You have changed the default inflation rate.

### • **Spending Your Retirement Assets Too Quickly**

Green—The historical performance analysis suggests that you may be able to cover your indicated expenses until your planning age.

Yellow—The historical performance analysis suggests that you may be able to cover your indicated expenses within five years of your planning age.

Red—The historical performance analysis suggests that you may not be able to cover your indicated expenses for more than five years from your planning age.

### • **Market Risk**

The Market Risk assessment is the lowest rating of the analysis done for Market Performance, Concentration, Stock Style, or Bond Style. We run the Concentration, Stock Style, and Bond Style diagnoses on your current portfolio.

## Market Performance

Green—You are running the tool under our default market conditions, or at a more conservative level.

Yellow—You are running the tool under market conditions less conservative than the default, but more conservative than average market conditions.

Red—You are running the tool under average, or above average, market conditions.

See Investment Strategies for a description of Concentration, Stock Style, and Bond Style.

See Historical Performance Analysis for information on spending analysis and market conditions used to assess market risk.

## 3. HISTORICAL PERFORMANCE ANALYSIS

Historical performance analysis is a way of analyzing how various asset classes in particular allocations may have performed based on historical market data. Analysts use historical data to determine the potential risks and returns of various asset classes, industry sectors, and investment styles.

The tool analyzes how hypothetical portfolios with asset mixes (of stocks, bonds, and short term) similar to each target asset mix might have performed over time in the time frame similar to the one you indicated for your goal. We provide highest and lowest annual performance analysis over a time horizon spanning 1926 to the end of the previous calendar year, as well as an analysis that identifies the best and worst cumulative performances over a time horizon similar to yours.

### Asset Liability Modeling Engine

Your Retirement Income Plan results provide a numerical and graphical display of the results from our Asset Liability Modeling engine. You have the ability to change inputs and certain assumptions and have the engine recalculate your plan. Each time the engine recalculates your plan, the information is stored and used when you revisit the tool or when using other planning tools at Fidelity.

Note that the information you enter and save in the tool may also update the stored information in other Fidelity tools.

The Asset Liability Modeling Engine is based on historical market data using Monte Carlo simulations to consider the probabilities your portfolio might experience under different market conditions. A straightforward deterministic model, where returns are assumed to be the same every year, does not usually yield the most reliable results. While over very long periods of time, markets have averages, it is often the case that the market performs both above and below these averages.

The analysis is performed in several steps. First, asset class percentages of an asset allocation similar to your current holdings (or the Fidelity-suggested model asset allocation, or the target asset mix you select) are identified. Then, based on historical asset class performance data, a set of hypothetical financial market return scenarios or simulations (a minimum of 250) are run to determine how each of the identified asset allocation groups might have performed in a variety of market conditions over a specified time period. The simulations are designed to reflect historical market volatility.

The historical performance analysis is an illustration of how a mix of asset classes similar to your mix of asset classes would have fared under historical market conditions, given your stated financial goals and assumptions. You also have the opportunity to see an analysis illustrating a Fidelity model asset allocation, or another target asset mix you select, given your stated financial goals and assumptions. It does not provide a prediction of your ability to meet your goals; rather, it provides a look at the effect of historical market conditions on your investment strategy and a rough estimate of your ability to satisfy your need for income in retirement based on that investment strategy.

The tool graphs results of the analysis based on how an asset allocation similar to your asset allocation (or the Fidelity model asset allocation, or the target asset mix you select) performed in a certain percentage of the simulated market scenarios. For example, the default historical likelihood figure (confidence level) is 90%, which we consider “Very Conservative” market performance. This means that in 90% of the historical market scenarios run, an asset allocation similar to yours performed at least as well as the results shown. Conversely, in only 10% of the historical market scenarios run an asset allocation similar to yours failed to reach the results shown. Fidelity uses this 90% figure so as to err on the side of a more conservative estimation of future market performance. You can adjust the confidence level to view other scenarios of market performance as you require, but while changing it may appear to improve your results, you may be increasing the risk that your assets won’t last throughout your lifetime (see the table below). For example, you can select a 75% historical likelihood figure, indicating a “Conservative” estimate of market performance. In this case, an asset allocation similar to yours would have performed at least as well as the results shown in 75% of the market scenarios. Conversely, in 25% of the historical market scenarios, an asset allocation like yours would have failed to reach the results shown.

Market Conditions	Performance Assumptions Fail	Performance Assumptions Meet or Exceed	Confidence Level
If markets perform extremely lower than historical averages, you will receive an extremely conservative analysis.	1 out of 20 times	19 out of 20 times	95%
If markets perform significantly lower than historical averages, you will receive a very conservative analysis.	1 out of 10 times	9 out of 10 times	90%
If markets perform lower than historical averages, you will receive a conservative analysis.	1 out of 4 times	3 out of 4 times	75%
If market averages continue, you will receive an average analysis.	1 out of 2 times	1 out of 2 times	50%
If markets perform higher than historical averages, you will receive an above-average analysis.	3 out of 4 times	1 out of 4 times	25%

Historical performance analysis figures do not represent the actual or hypothetical performance of your actual holdings and exclude lifetime income amounts. They are based on the mix of asset classes currently in your Fidelity accounts and any account asset class information you manually entered (or the Fidelity model asset allocation, or the target asset mix you select). In addition, if you hold an investment for which Fidelity does not have asset allocation or underlying holdings information, this investment will be classified as “unknown.” If you hold an investment for which Fidelity has information, but that cannot be classified as either a stock, bond, or short-term investment, that investment is classified as “other.” Total assets classified as “unknown” or “other” are normalized to reflect your current asset allocation and are then included in the stock, bond, or short-term categories based on your current asset allocation percentages. If your holdings are nondiversified within an asset class (such as a single security like company stock), the historical performance analysis performed by the tool may not be applicable to your holdings.

Each target asset mix’s performance figures are based on the weighted average of annual return figures for certain benchmarks for each asset class represented in the target asset mix. Historical returns for the various asset classes are based on performance numbers provided by Ibbotson Associates in the *Stocks, Bonds, Bills, and Inflation (S&P) 2001 Yearbook* (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). Domestic stocks are represented by the S&P 500® Index; bonds are represented by U.S. Intermediate Term Government Bonds; and short-term assets are based on the 30-day U.S. Treasury bill. Foreign equities are represented by the MSCI® EAFE® Index for the period from 1970 to the last calendar year. Foreign equities prior to 1970 are represented by the S&P 500® Index. Average annual returns are hypothetical, and, if achieved annually, will produce the same cumulative total return if performance has been constant over the entire period. Average annual total returns simply smooth out variation in performance; they are not the same as actual year-by-year results.

There is historical risk associated with market declines. Volatility of the stocks (domestic and foreign), bonds, and short-term asset classes is based on the historical annual data from 1926 through the most recent year-end data available from Ibbotson Associates, Inc. Stocks (domestic and foreign), bonds, and short-term are represented by the S&P 500® Index,\* U.S. Intermediate Term Government Bonds, and 30-day U.S. Treasury bill, respectively. Apart from World War II, 1972 to 1974 has been the worst decline looking at returns on an annualized return basis. The most recent three market declines reported represented at least a 20% decrease in the stock market as measured by the daily change in the S&P 500® Index. Keep in mind that the asset class mix with your current portfolio may still indicate a positive return for any of the market declines reported here if it would have outperformed the stock market during the period reported. (See also Index Definitions.)

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.

## Historical Performance Analysis—Limitations

Historical performance analysis figures do not represent the actual or hypothetical performance of your actual holdings, and exclude lifetime income amounts. They are based on the mix of asset classes currently in your Fidelity accounts and any account asset class information you manually entered (or a Fidelity model asset allocation). In addition, if you hold an investment for which Fidelity does not have asset allocation or underlying holdings information, this investment will be classified as “unknown.” BrokerageLink® assets are also classified as “unknown.” If you hold an investment for which Fidelity has information, but that cannot be classified as either a stock, bond, or short-term investment, that investment is classified as “other.” Noninvestable assets you have manually entered into the tool, or assets imported by account aggregation services (such as a home or art collection) are classified as “other.” For the purposes of analysis in the tool, total assets classified as “unknown” or “other” are normalized to reflect your current asset allocation and are then included in the stock, bond, or short-term categories based on your current asset allocation percentages. However, these assets may or may not actually perform according to this allocation. If your holdings are nondiversified within an asset class (such as a single security like company stock), the historical performance analysis performed by the tool may not be applicable to your holdings.

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, expenses, or certain taxes not reflected in these hypothetical illustrations.

## Monte Carlo Simulations

Monte Carlo simulations are mathematical methods used to estimate the likelihood of a particular outcome based on market performance historical analysis. The Monte Carlo approach has been around since the early half of the 20th century and is used across many fields, such as physics, chemistry, and biotechnology to solve complex science problems, particularly those that fall into a nonlinear category. The tool uses the Monte Carlo approach in which markets are assumed to change. Historical performance simulations are conducted to determine the probability that a portfolio may experience a certain minimum level of performance.

Monte Carlo simulations are analogous to rolling several pairs of dice. Each Monte Carlo simulation reproduces a random set of results by generating a random return for the scenario. When analyzed together, these results suggest a probability of occurrence. For example, if you repeatedly roll four dice at the same time, the probability of all sixes coming up in the same roll is very low; however, other results may be more probabilistic, such as one six occurring in any given roll. For the purposes of our Monte Carlo simulation, we randomly generate a series of hundreds of returns for a given scenario. Together, these scenarios provide a probability that a certain amount (or greater) of assets/income occurs at that level.

\*The S&P 500® Index, an unmanaged market capitalization-weighted index of common stocks, is a registered service mark of The McGraw-Hill Companies, Inc., and has been licensed for use by Fidelity Distributors Corporation and its affiliates.

## Estimated Returns

To project estimated income and assets over your stated planning time frame, the simulations utilize estimated returns for each asset class (stocks, bonds, and short-term investments) and an estimated inflation rate. Estimates are based on long-term historical average inflation-adjusted market return data and the Federal Reserve's longer-run inflation goal.

While you can choose an inflation rate other than the current default, doing so will impact the growth of estimated expenses as well as the return assumptions. Raising the inflation rate assumption may make your retirement results appear better due to how the tool uses inflation. You can see the effects of different inflation rates by making changes within the tool. If you have indicated health care expenses or long-term-care insurance in the budget worksheet, they will continue to be inflated at their default rates and will not be impacted by any new rate you select (see Health Care Inflation Assumptions).

## Assumptions in Monte Carlo

Volatility of the stocks (domestic and foreign), bonds, and short-term asset classes is based on the historical annual data from 1926 through the most recent year-end data available from Ibbotson Associates, Inc. Stocks (domestic and foreign), bonds, and short term are represented by S&P 500® Index,\* U.S. Intermediate Term Government Bonds, and 30-day U.S. Treasury bill, respectively.

Annual returns assume the reinvestment of interest income and dividends, no transaction costs, no management or servicing fees (except for a variable annuity fee), and the rebalancing of the portfolio every year. The calculation does not include annual returns of individual portfolio securities or any securities you hold, so the tool's analysis is performed on asset classes, not individual securities. All investments within an asset class are treated the same for historical performance purposes. It is not possible to invest directly in an index. All indexes include reinvestment of dividends and interest income.

## Risk and Return

A Monte Carlo simulation of capital market returns takes into account estimated returns from each asset class (e.g., cash, fixed income, equities, etc.), their volatility, correlations between them, and other factors, all based on historical statistics. Random rates of return are generated by sampling values from a probability distribution such as a bell curve (e.g., "lognormal" distribution). Returns from equity asset classes (such as Canadian, U.S., or international equities) are historically higher than returns from lower-risk (such as fixed income) or risk-free investments (like cash or GICs). But higher equity returns also have greater risk associated with a wider range of outcomes—from complete loss of capital to appreciation many times over the initial purchase price. They also experience greater volatility. Asset classes, when considered within a framework of historical performance conditions, have a clear correlation with each other and are not considered independently. These mathematical relationships can be quantified and fitted in the model.

## Historical Likelihood Your Money Will Last

Market swings can be risky, particularly when you depend on your assets to provide income. Using an average does not capture the highs of the late '90s technology boom, or when the bubble burst and markets fell in 2001 and 2002. When deciding on a portfolio asset allocation, it helps to understand the potential impact of risk that comes with more volatile investments. The more equity you have, the more uncertain your future returns might be. Monte Carlo approaches help you understand the risk/reward trade-offs that come with investing.

Based on the information you've provided about your assets, your current or selected target asset allocation, your expected income during retirement, your indicated level of expenses in retirement, and your assumed market confidence, we run a historical performance analysis. In this analysis we run a minimum of 250 historical market scenarios. The percentage of those scenarios in which you meet your indicated level of retirement expenses (plus taxes) through the ages indicated is the basis for the figures represented as the historical likelihood your money will last.

The tool also provides a graph showing estimates of how your income sources combined with withdrawals from your assets may meet your indicated expenses. The chart shows your estimated income for the first month of retirement or the current month (whichever is later). If you are not yet retired, the expense amount shown is in future dollars, which means we have adjusted these figures to account for inflation.

Note that the projected likelihood of success figures are hypothetical in nature and, while accurate based on all the assumptions made, many factors may and will change between now and the end of your plan, which may result in a different outcome.

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.

## About Market Risk Assessment

On the Analysis page, the tool provides an assessment of your market risk, which measures the following items:

- Market confidence level selected
- Concentration
- Stock style
- Bond style

The overall assessment of market risk is based on the lowest score received for any of these items. See Investment Strategies for specific rules on how we conduct the analysis. If you do not have stock and/or bond positions in your current portfolio, the categories are suppressed and do not affect scoring of market risk.

Note that you may receive a warning in the Market Risk section based on the inclusion of assets classified as "other" or "unknown," but may not be exposed to risk beyond the normal range of our risk classification. If you have entered assets that fall under these categories, be sure to review the impact of these holdings prior to making any investment decisions.

\*The S&P 500® Index, an unmanaged market capitalization-weighted index of common stocks, is a registered service mark of The McGraw-Hill Companies, Inc., and has been licensed for use by Fidelity Distributors Corporation and its affiliates.

## Data Used to Classify Assets

Holdings data used to classify mutual funds and other financial assets are provided from a variety of independent sources.

Holdings data (including asset allocation, equity industry sector, equity style, and foreign vs. domestic classifications) for publicly available mutual funds are obtained monthly from an independent third-party vendor, Morningstar, Inc.\* Data is only as current as the holdings information supplied to Morningstar by third parties and may be up to 12 months old. In some cases (e.g., newer funds), the third-party vendor may not have holdings information and therefore such funds are classified as “unknown.” In some other cases, the third-party vendor may not recognize all the holdings within a mutual fund. In these cases, the third-party vendor provides analysis only on the recognized portion of the fund. Therefore, the asset allocation and equity sector analysis may not be able to be fully classified. The unrecognized holdings are then classified as “unknown.”

Note: Assets classified as “unknown” or “other” are included in the stock, bond, or short-term categories based on your current asset allocation percentages. A hypothetical asset allocation scenario is presented below.

Stocks 40%  
Bonds 20%  
Short Term 15%  
Other 10%  
Unknown 15%

The tool combines the percentages of other and unknown to calculate historical market performance figures. It then takes the percentage of each known classification (stocks, bonds, short term) and divides it by the total percentage of stocks, bonds, and short term. This calculation results in a normalized mix percentage adding up to 100%.

Other + Unknown = 25%  
Stocks + Bonds + Short Term = 75% {or 100% – total for Other and Unknown (25%)}  
Stocks % (40%) / 75% = 53%  
Bonds % (20%) / 75% = 27%  
Short Term (15%) / 75% = 20%

For proprietary mutual funds and other pooled investment options unique to certain retirement plans (e.g., commingled pools or separate accounts), the tool relies on underlying holdings provided quarterly by Fidelity affiliates, plan sponsors, and external money managers. In the event that current quarterly holdings are not available, the latest available data will be used.

In the case of individual securities held within an account, the tool’s analysis determines the industry sector using the same parameters used by the third-party vendor providing underlying holdings data for publicly available mutual funds. Individual stock data are provided by Standard & Poor’s® Compustat. In the rare instance where such data are not available from the third-party vendor, Strategic

Advisers, Inc., a registered investment adviser and a Fidelity Investments company, will determine the industry sector using publicly available information (to the extent available). If information is not available, the holdings will be classified as “unknown.” Investment information provided to Strategic Advisers, Inc., is not based on contemporaneous data, but, rather, on third-party data. Strategic Advisers, Inc., is not responsible for the accuracy of data provided by third parties.

## About Asset Allocation

Retirement can last several decades. You should consider restructuring your retirement investments so you can mitigate the effects of inflation and market volatility. One possible way to protect yourself from the unpredictability of the market is to spread your holdings among the three main types of investments—stocks/stock mutual funds, bonds/bond mutual funds, and cash/money market funds. This process of spreading your investments in a strategic way across the three asset classes is called asset allocation. While asset allocation does not ensure a profit or guarantee against loss, when you distribute your total holdings among the asset classes of stock, fixed-income, and short-term investments, you may lower the risks associated with having all your money in only one type of investment.

Asset allocation also affords you the opportunity to determine how much of your money you may need to invest for the short term and how much you can afford to put in higher-risk, longer-term growth-oriented investments. It may help investors identify what risk/return balance makes sense for them, given what they are trying to accomplish and in what time frame.

## About Target Asset Mixes

A target asset mix is one of several different asset allocations among stocks, bonds, and short-term investments. These target asset mixes are created based on historical risk and return characteristics for stock, bond, and short-term investment asset classes. At Fidelity, they represent six significantly different allocations that are intended for different investor profiles with different investment objectives, risk tolerances, and time horizons.

Keep in mind that different asset classes tend to offer different balances of risk and reward. Generally, the greater the potential for long-term returns, the greater the risk of volatility, especially over the short term. In order to minimize the risk you assume in seeking high returns, it is critical that your portfolio provides an appropriate mix of investments. A more aggressive portfolio (one with a higher stock allocation) could represent higher risk, especially in the short term, but higher potential long-term returns. Conversely, a less aggressive portfolio (with a lower allocation to stock and higher allocation to bonds or short-term investments) could represent less short-term risk, but potentially lower long-term returns. You should take into consideration any unique circumstances or need for funds that might apply to your situation when deciding on an appropriate investment strategy.

\*Morningstar, Inc., is an independent provider of financial information. Morningstar does not endorse any broker-dealer, financial planner, insurance company, or mutual fund company.

While past performance does not guarantee future results, history has shown that diversifying your assets among different asset classes, industries, and countries can generally improve the long-term performance of your portfolio. However, it is important to remember that certain asset types involve greater risk than others do. For example, foreign investments can involve greater risk than U.S. investments. Diversifying your investments across asset classes, industry sectors, and nations may help minimize your overall exposure to sudden market swings that may cause sudden changes in the price of investments. However, it does not ensure a profit or guarantee against loss.

### **Look-through Analysis**

Look-through analysis is the categorization of a portfolio based on the underlying value and type of assets held in each underlying investment (based on data from the third-party sources described above). Rather than simply classifying investments as stocks, bonds, or short-term investments, this approach analyzes the underlying holdings of the investments to discern a more accurate exposure to all asset classes, as well as specific industry sectors. For the tool, look-through analysis is applied to all accounts that have holdings information automatically updated in the tool, which includes all accounts except those that you have manually added.

### **Dollar Values: Future vs. Current**

Future dollars and current dollars (also known as “today’s dollars”) are different ways of viewing values over time. Both ways are correct means of presenting values. Future dollar values illustrate how a current expense would grow over time taking into account the effects of projected inflation. This method is used to estimate the effects of inflation. Note that the tool always uses your stated retirement date, or the current year if you are already retired, as the date for which this valuation is made on your expected retirement expenses. If you indicated that you are already retired, the tool will provide a future dollar amount that is equal to today’s value.

Current dollars represent the inverse, which is the cost of a future value at the current point in time. When calculating a value in current dollars, we remove the effects of projected inflation over time to determine the value in current terms. Some people have an easier time understanding a value if it’s translated to the equivalent value today. In such a case, the reverse calculation is performed where we back out inflationary growth over time to determine the value in current terms. If you state a payment as occurring today or in the current year, there is no inflationary impact and the values will be the same. Note that if you indicated you are already retired, the first-year amounts the tool provides for each of current dollars and future dollars are equal.

## **4. ASSETS INCLUDED IN THE TOOL**

### **Accounts at Fidelity**

Certain accounts maintained by or at Fidelity automatically display and are defaulted to be included in your plan, although you always have the option of deselecting if you prefer not to include them. Accounts may include:

- Taxable Accounts
- Traditional IRAs
- Roth IRAs
- SIMPLE IRAs
- 401(k) Plans, Including Roth Sources
- 403(b) Plans, Including Roth Sources
- Deferred Annuities
- Income Annuities
- SAR-SEP IRAs
- SEP-IRAs
- Keogh Plans
- 457(b) Plans
- Employer Stock Ownership Plans
- 401(a) Qualified Plans
- Lump-Sum Defined Benefit Pension Plan Payments
- Nonqualified Deferred Compensation Plans

Note: Fidelity Advisor Fund assets held outside your employer-sponsored plan are not automatically displayed in the tool and must be entered manually. Charitable Gift Fund and Health Savings Accounts are not included in the tool.

### **Authorized Accounts**

Accounts that have been authorized to be associated with your Social Security number will also appear in the tool. An authorized account is an account for which you have been provided inquiry (or higher) authorization by the account owner. The person who has provided authorization to you is either an individual (not a corporation, trust, or other entity) or an owner, trustee, custodian, fiduciary, or a joint or beneficial owner of a Fidelity mutual fund or brokerage account otherwise accessible through Fidelity.

Note: It may not be appropriate to include an authorized account in your retirement income plan if you have no ownership interest in that account. For security purposes, Fidelity accounts held by a spouse are not automatically included.

## **Annuities**

Any deferred or income annuity held at Fidelity is automatically imported into the tool. Information about annuities held outside Fidelity must be manually entered by you. Deferred annuities held as individual contracts or as positions within employer-sponsored plans are displayed under Assets. Income annuities appear as sources of retirement income.

## **Workplace Savings Accounts**

For workplace savings plans that are recordkept at Fidelity (excluding nonqualified deferred compensation plans, Fidelity Retirement Plan (Keogh) and Self-Employed 401(k) Plan accounts, and SEP, SAR-SEP, and SIMPLE IRAs), your plan deferral information is automatically imported into the tool, including any employee pretax, Roth, non-Roth after-tax, and catch-up contributions. In some cases, the plan sponsor has also provided plan rule information, including matching, mandatory, and profit sharing contributions, as well as plan minimum and maximum contribution limits, and these will be included in the tool's calculations. Check the Contribution Details page (which you can access from the Contribution Details link on the Accounts page) to see if your workplace savings plan has this information included. The tool does not take into consideration loans or loan payments from your current workplace savings account when assessing your retirement goal.

## **Defined Benefit Pension Plans**

Any defined benefit pension plans recordkept by Fidelity that are not currently paying benefits are automatically included in the tool as lifetime income, provided you also have a Fidelity 401(k), 403(b), or 457(b) account. The benefit listed initially defaults to the amount you would receive if you were fully vested, worked at the company offering the benefit until full retirement age, and received a 3% salary increase each year until that age. Note: The tool defaults to a different salary growth rate that you can edit to a level of your choice. These updates do not impact the values used to calculate your defined benefit values, which are calculated outside the tool and the data are used as is. Otherwise, you will need to enter information on your defined benefit plans manually. Defined benefit accounts recordkept at Fidelity that are currently paying benefits to you will not be listed in the Income section automatically. You will need to enter them manually.

If your pension is recordkept by Fidelity and if your plan offers options for distributions, you can model different options using the Add/Edit Details link. This information regarding the payments or streams of income and the options available is then imported to your plan and becomes the default amount for all the planning tools at Fidelity. Any lump-sum values reflected will be treated as an IRA for purposes of calculating your retirement income in the tool. Your target asset mix, if selected, or your current asset allocation, if applicable, will be applied to this hypothetical IRA, which may result in changes in represented value between lifetime income and investment income shown.

For Single Life Annuity and Joint and Survivor pension options, the tool assumes that the benefit will continue for you or your survivor's life. For Step Adjustment pension plans with Single Life Annuity and Joint and Survivor payment options, if the last step does not

include an end date, then it will continue for your, or your survivor's, life. For a Certain and Continuous pension option, the end date is the last payment date provided for under the specified time frame for the payment stream (e.g., five years). If you change the pension start age, the Social Security start age is not automatically changed and your data may be out of sync. Note that changes to distributions are not made to your actual pension plan. If you are entering the distribution phase of retirement and wish to begin receiving payment(s), please contact your Fidelity Representative or your employee benefits department directly.

Please consult your tax advisor if you have any questions regarding the taxability of your pension benefit. See Tax Calculations and Assumptions for additional details on material tax assumptions related to pension benefits and how the tool calculates estimated income taxes on pension benefits.

## **Nonqualified Deferred Compensation Plans**

If you participate in any nonqualified deferred compensation plans recordkept at Fidelity, the tool automatically includes any amounts or positions maintained for your benefit. Any contribution elections you have made in your plan are not automatically included for planning purposes. The tool uses any contribution amounts you enter in the tool for yourself and/or your employer. If you do not enter contributions, a value of \$0 is used for contributions. No contribution limits are applied. The tool assumes there are no predefined rules or elections for taking distributions from your nonqualified deferred compensation plans. The tool permits distributions from nonqualified plans at any time, and never forces distributions to occur. There are no minimum required distributions (MRDs) and no penalties for early withdrawal (i.e., before age 59½). All distributions from nonqualified plans are assumed to be fully taxable. The tool also assumes that FICA taxes are not due at retirement (or at any time of distribution) but are paid on an ongoing basis.

Your actual account value at any point in the future for your nonqualified plans will be determined by any plan activity and any investment increases or losses that may occur. Any plan amounts or positions reflect an unsecured promise your employer has made to you to pay a benefit sometime in the future. In the event your employer were to become insolvent, you might not receive any money from these plan(s). Please refer to your plan materials for more details, including any distribution elections you may have made.

For your nonqualified deferred compensation plans that are recordkept at Fidelity, your actual account value at any point in the future is determined by any plan activity and any investment increases or losses that may occur. Any plan amounts or positions reflect an unsecured promise your employer has made to you to pay a benefit sometime in the future. If your employer becomes insolvent, you may not receive any money from these plans. Please refer to your plan materials for more details, including any distribution elections you may have made that might not be reflected in the tool. (See Tax Calculations and Assumptions for additional details on how the tool calculates estimated income taxes on nonqualified plan account assets.)

## Updating Account Data

In the tool, market values, account balances, and account positions for employer-sponsored savings plans (e.g., 401(k), 403(b), and 457(b) plans), and personal investing accounts you hold at Fidelity will be automatically updated. Non-Fidelity accounts that are aggregated using Full View® (if you have this service available to you) will also be automatically updated in accordance with the terms of that service. You are responsible for updating the account positions and market value of any other accounts. If you participate in a defined benefit pension plan that you have manually added, you may be able to make changes to your pension benefits. If you make changes outside the tool, the pension benefit information is not updated automatically.

## Manually Entered/Other Accounts

If you previously used certain other Fidelity tools and manually entered accounts into them, those accounts will automatically appear in the tool. If you are using the tool for the first time, and did not previously use other Fidelity tools, you will be able to manually add accounts in a generic format or in a more detailed manner using the Add Other Accounts link. Please note that it is not possible to add Roth contribution sources to a manually added 401(k) or 403(b) account. We strongly encourage you to use the more detailed manner of adding accounts, as it will provide more information for the calculations and better approximate the asset classes of all your holdings. 529 plan, Coverdell, and UGMA/UTMA accounts can be manually added into the tool, although you may want to consider their appropriateness for your retirement plan. If they are added, 529 plan accounts and Coverdell savings accounts are treated as tax-free accounts, and UGMA/UTMA accounts are treated as taxable accounts.

If using the generic format for entering non-Fidelity assets, you will be asked to provide information about the overall asset allocation for the grouping of retirement accounts and for any taxable grouping you indicate. Retirement accounts entered under this format will be treated as tax-deferred accounts, so it is recommended that tax-free accounts, such as Roth IRAs, not be entered in this manner. You can choose the percentage of individual stocks or stocks in mutual funds as follows:

- 100% Stocks, 0% Bonds, 0% Short Term
- 85% Stocks, 15% Bonds, 0% Short Term
- 70% Stocks, 25% Bonds, 5% Short Term
- 50% Stocks, 40% Bonds, 10% Short Term
- 20% Stocks, 50% Bonds, 30% Short Term
- 0% Stocks, 0% Bonds, 100% Short Term

Because these accounts may or may not grow in value, it is your responsibility to maintain their asset totals and allocations if they are part of your plan. The tool will not update these values for you.

## Detailed Non-Financial Assets and Income from Financial Events

The tool allows for the entry of non-financial assets such as art collections, as well as for certain financial events such as the sale of a home or business. The sale of a home or business and the taking of all or a portion of the cash surrender value of a life insurance policy can be entered in three different ways—(1) as an income source within the Income section of the tool, (2) as a financial event within the Asset section of the tool or (3) as a detailed account/asset within the Asset section of the tool. From a tax standpoint, it may be more appropriate to enter the income from the sale of these types of assets the third way, as more detailed data can be entered there to help the tool calculate the estimated taxable income from the sale of such assets. If you have entered an asset and its sale date in one section of the tool, please do not reenter the date in the Asset section of the tool as it will double-count the sale and resulting proceeds.

Regardless of where you enter the information, you are responsible for determining and/or estimating any basis, cost, expenses, proceeds, market value, or other values related to these items. Because these items may or may not grow in value, it is your responsibility to maintain their values if they are part of your plan. The tool, however, will assume that these items increase in value with the general inflation rate you set in the detailed entry screens of the tool.

The tool assumes that the net proceeds (entered by you or calculated by the tool based on data you entered) from an inheritance; the sale of a home, business, or stock options; a lump-sum distribution of assets in tax-deferred accounts (except from a pension); and/or from taking all or a portion of the cash surrender value of a life insurance policy will be invested in a hypothetical taxable account to help cover retirement expenses. If you intend to purchase other assets with the proceeds, use some or all of the proceeds for nonretirement expenses, and/or will incur new expenses as a result of the sale (for example, rental expense instead of mortgage expense), you might need to adjust the net proceeds you enter and/or also update your expenses with this additional information.

## Asset Allocation of Certain Proceeds and/or Income Assumed to Be Invested in a Hypothetical Taxable Account

Whenever the tool assumes that proceeds or income are invested in a hypothetical taxable account, such account is assumed to have an asset allocation that is the same as the target asset mix you selected, or, if none was selected, an asset allocation mix based on current holdings in all the accounts you indicated were allocated to your retirement goal. If no accounts were allocated to your retirement goal, the tool assumes an asset allocation based on the current holdings in all the accounts included in the tool. See the Tax Assumptions and Calculations section of this methodology for details of how the tool estimates the taxes on the proceeds and income from the sale of various kinds of assets.

### **Accounts Not Automatically Included in the Tool's Analysis**

A Full View® account (if this service is available to you) is an online account held at another institution from which you have authorized Fidelity to import your account data electronically. However, while authorized accounts and chosen Full View accounts automatically display in the tool, these accounts are not automatically included in the tool's analysis. Assets in Fidelity Advisor Funds held outside your employer-sponsored plan are not automatically included in the tool and must be entered manually. Other accounts held at Fidelity such as UGMA, 529, corporate accounts, and certain trust accounts will be listed in the Account section but are not automatically included. Limited partnership accounts and certain non-prototype retirement accounts that are not held under your Social Security number at Fidelity will not be listed, and, if appropriate to include in your retirement plan, must be manually entered into the tool as well as manually updated.

### **Margin Balances**

Margin balances are not considered in the tool. Asset allocation and the corresponding risk of your accounts is determined from the market value of all your positions (account holdings), excluding any margin debit balance. Because margin increases your risk, the exclusion of margin balances results in a determination of market risk that is less than your actual market risk—to the extent you have a margin debit. The exclusion of margin will also result in a determination of actual and projected hypothetical net worth that is greater than would be calculated if margin were included. You may want to consider the applicability of results in the tool if you have a margin debit balance. Margin debit balances do not apply to retirement plans or accounts.

### **Unsettled Transactions**

Unsettled transactions pending in any of your selected accounts at the time of your tool interaction may materially impact the value of that account included in your analysis. For an unsettled equity purchase, the value may be materially overstated (and the investment risk understated due to cash remaining in the account), and for an unsettled equity sale, the value may be materially understated (and the investment risk overstated). Depending on the size and scope of such unsettled transactions, you may want to exclude the affected account(s) from your analysis or, if included, consider the reliability of the tool's results.

## **5. TAX CALCULATIONS AND ASSUMPTIONS**

Taxes can play an important role in how money grows over time. Given the same investments in the same proportions, assets in tax-advantaged accounts have the potential to grow faster than assets in taxable accounts, as the earnings in tax-advantaged accounts are not taxed until time of withdrawal, and in some cases not at all. However, while distributions from tax-advantaged accounts are often taxed at ordinary income tax rates, earnings on taxable accounts may be taxed at the more favorable rates applicable to long-term capital gains, qualified dividends, and certain other types of income.

The tool estimates federal, state, and local individual income taxes on, among other things, investment earnings, distributions from tax-free and tax-deferred retirement plans, Social Security, and any earned income or salary. It does not calculate actual tax liabilities or benefits and, therefore, should not be used for tax planning or tax-reporting purposes. Rather, the tax calculations for any particular year are reasonable approximations based on information provided by you, tax rate data supplied by third parties, and projected inflation adjustments to tax brackets, among other things. Any tax estimates and tax information provided are not, and should not be construed as, legal or tax advice. While reasonable efforts are made to use and maintain the most current actual rates, income tax brackets, and other tax rules for estimating taxes, there may be a time lag between when new actual tax rates, brackets, and other rules become effective and when the tool is updated to reflect them. For tax reporting, you should rely on the official tax forms mailed to you each year and your or your tax advisor's calculations for tax-reporting purposes. Consult your tax advisor regarding questions specific to your tax situation.

The tool makes certain tax assumptions based on the type of account or other information entered. The tool assumes the classifications shown on the next page.

Taxable Accounts	Tax-Deferred Accounts/Plans and Annuities	Tax-Free Accounts	Other Taxable Income or Events
Brokerage Account	401(k) (including SIMPLE 401(k) and BrokerageLink Accounts within Such Plans)	529 College Savings Plan Account	Social Security Benefits
Mutual Fund Account	403(b)	529 Prepaid Tuition Plan Account	Part-Time Earnings
Checking Account	457	Coverdell Education Savings Account	Other Additional Earned Income
Savings Account	Thrift Plan	Roth IRAs <sup>1</sup>	Rental Income
UGMA/UTMA Account	Profit Sharing Plan		Royalty Income
	Money Purchase Pension	Roth Source in a 401(k) <sup>2</sup>	Distributions of the Cash Value of Life Insurance <sup>3</sup>
	Keogh Money Purchase		Sale of Stock Acquired through Stock Options
	Keogh Profit Sharing	Roth Source in a 403(b) <sup>2</sup>	Sale of Non-Financial Asset
	Traditional IRA		Sale of Home/Residence
	Rollover IRA		Sale of Other Real Estate
	SEP-IRA		Sale of Business
	SAR-SEP IRA		Inheritance
	SIMPLE IRA		
	Defined Benefit Pension Plan		
	Nonqualified Deferred Compensation Plan		
	Qualified Annuity		
	Nonqualified Annuity		
	401(a) Plans		
	Employer Stock Ownership Plans		

<sup>1</sup> Qualified distributions include those that meet the IRS five-year aging requirement *and* are made on or after the attainment of age 59½, made to a beneficiary or estate of the original owner on or after the account owner's death, made if a client becomes disabled, or made for a first-time home purchase. Nonqualified distribution of earnings will be taxable and may also be subject to penalties.

<sup>2</sup> Roth 401(k) and Roth 403(b) sources are part of a 401(k) or 403(b) account. The tool assumes that the workplace savings plan rules allow for withdrawals by source.

<sup>3</sup> The savings from the cash value of life insurance accumulate tax deferred, which means gains are taxable only if and when earnings are withdrawn.

## Taxable Account Assumptions

For federal, state, and local income tax purposes, the tool uses the following assumptions for taxable brokerage and mutual fund account assets (excluding self-directed brokerage accounts held within a tax-advantaged plan such as a 401(k)):

- All capital investment gains (when realized) are long-term capital gains.
- Realized gains and losses, interest income, dividend income, and other investment income are taxed annually.
- The tool assumes a 20% turnover of assets each year, pro rata across all asset classes, so that each year, 20% of previously unrealized gains or losses become realized. This assumption will have the greatest impact on assets the tool classifies as stocks.
- The tool may overstate or understate the amount of after-tax proceeds available from sales of securities in taxable accounts because it assumes that the tax basis for each security is the fair market value of the security on the date the tool is used. The actual adjusted tax basis of the securities in your taxable account often will be different from the fair market value of those securities on any given day. For example, if you have highly appreciated securities in your taxable account, the adjusted tax basis actually will be much lower than the fair market value, and you will be subject to capital gains tax on your net gain. Because the tool assumes that the adjusted tax basis is equal to fair market value, however, its calculations will show that there was no taxable gain and that 100% of the sale proceeds were available to you. Conversely, if your taxable account holds securities that are currently in a loss position, the tool will not take into account any tax benefit that may be generated upon a sale of those securities. The tool does not consider any cost basis on company stock held in employer-sponsored plans.
- The portion of assets classified as stocks by the tool are assumed to pay an annual dividend of 2% and are treated as qualified dividends.
- Potential applicability of five-year capital gains and foreign tax credit rules is not reflected.

UGMA/UTMA accounts may only be used for the benefit of the minor, so they should not be assigned to meet goals unrelated to the minor. For all years, the tool assumes that income below an annual inflation-adjusted amount determined by the Internal Revenue Code and related regulations is taxed at the minor's income tax rate and income above that amount at the parents' marginal income tax rate. If the minor is age 18 or older, the taxes estimated by the tool may, therefore, be overstated.

For checking and savings accounts, the tool assumes all income is interest income and taxes it annually at ordinary income tax rates.

## Tax-Deferred/Tax-Free Account Assumptions

### Account Contributions

- For workplace savings plans that are recordkept at Fidelity (excluding nonqualified deferred compensation plans) your plan deferral information will be automatically imported into the tool, including any employee pretax, Roth, non-Roth after-tax, and

catch-up contributions. The tool applies IRS annual employee elective deferral limits based on the type of account, and these will be included in the tool's calculations. In some cases, the plan sponsor has also provided plan rule information, including matching, mandatory, and profit sharing contributions, as well as plan minimum and maximum contribution limits, and these will be included in the tool's calculations. Check the Contribution Details page of the account to see if your workplace savings plan has this information included.

- For individuals who enter annual tax-advantaged account contributions using the approximate method, no annual contribution limits are applied by the tool. Calculations are made using the full annual contribution amount you indicate, regardless of whether the indicated amount exceeds applicable IRS annual contribution limitations.
- For individuals who enter annual tax-advantaged account contribution amounts using the Contribution Details method, the tool applies IRS annual contribution limitations based on the type of account (see below for applicable contribution limits). However, you are unable to add Roth contributions in a manually added account and so IRS limits will not apply. Limits are tested for each account individually as you enter data in the tool.

Except as provided above, any amount you enter in excess of the applicable IRS limit is not included in the tool's calculations. The tool considers any IRS limits that may apply to amounts you indicated that your employer will contribute to the plan on your behalf (regardless of whether or not your plan is recordkept by Fidelity). IRS limits on after-tax employee contributions to employer-sponsored accounts are also considered by the tool. Employer-sponsored plan rules and limits are not considered by the tool when not provided by the plan sponsor; please contact your plan sponsor for details. Contributions are assumed to stop at the indicated retirement age.

- If you are age 50 or older, the tool considers catch-up contributions allowed under the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) for applicable accounts. However, the tool does not consider the last three years' contributions to 457(b) plan accounts or 15+ years-of-service contributions to 403(b) plan accounts.

*401(k) plan, 403(b) plan, 457 plan, and SAR-SEP IRA contribution limits (employee elective deferral limits, including employee Roth 401(k) or 403(b) contributions)*

Tax Year	If You're under Age 50	If You're Age 50 or Older
2015	\$18,000	\$24,000

- Employer/employee combined contribution limits cannot exceed the lesser of 100% of compensation or \$53,000 in 2015, indexed for inflation thereafter. For purposes of the non-elective contribution, annual compensation for 401(k) and 403(b) plans is limited to \$265,000 in 2015.
- Note that if your 401(k) plan includes a Retirement Medical Benefit Account (RMBA), the tool does not distinguish these assets and assumes all assets to be regular plan contributions.

- Note that if your 401(k) plan includes a Cash Balance plan, the tool does not distinguish these assets and assumes all assets to be regular plan contributions.

#### Traditional and Roth IRA Annual Contribution Limits

Tax Year	If You're under Age 50	If You're Age 50 or Older
2015	\$5,500	\$6,500

- After 2008, the annual contribution limit is indexed for inflation in \$500 increments.

#### SIMPLE IRA Annual Contribution Limits

Tax Year	If You're under Age 50	If You're Age 50 or Older
2015	\$12,500	\$15,500

- Employer must match employee contribution dollar for dollar up to 3% of the employee's compensation (up to the maximum deferral amount) or provide a non-elective contribution equal to 2% of the employee's compensation. For purposes of the non-elective contribution, annual compensation is limited to \$265,000 in 2015.
- **SEP-IRA**—Employer contributions may be tax deductible and have a limit of up to 25% of compensation, up to a maximum of \$53,000 in 2015.
- **Keogh**—Employer contributions may be tax deductible and have a limit of up to 25% of compensation, up to a maximum of \$53,000 in 2015.
- The tool applies post-2013 rules for cost-of-living increases to applicable contribution limits after 2013. These contribution limits are inflation adjusted in accordance with specific rules outlined by the Internal Revenue Code assuming the tool's default inflation rate.
- **Warning:** While the tool allows you to enter your own annual contribution amounts and, where applicable, employer contribution limits (excluding pensions), please remember that the outcome of the tool is less meaningful if you enter unrealistic contribution amounts or amounts in excess of IRS or applicable plan limits for certain account types.

**Contributions are assumed to continue until the person reaches retirement.** Each account's contributions must be accounted for as the tool does not perform any reconciliation of income and expenses prior to the commencement of retirement for the household. Once the household enters retirement (the first year of retirement for either person), reconciliation of income and expenses will occur. Be sure to enter any employer-sponsored plan contributions that result from earned income. It is your choice to enter other savings into non-employer-related accounts. The tool will perform a reconciliation of income and expenses, investing any excess income into a hypothetical taxable account that will match the overall asset mix of your other accounts or a selected target asset mix that you have chosen. Prior to retirement, all non-earned income (Other Preretirement Income) is invested into a hypothetical taxable account to be used toward meeting retirement expenses. This hypothetical taxable account will not appear as an individually listed account but will be part of the totals used. For distribution hierarchy, it is considered a taxable account.

#### Distributions/Withdrawals from Defined Contribution Plans, IRAs, and Annuities

- Distributions from tax-free retirement and education savings accounts (including Roth IRAs, Roth 401(k)/403(b) sources in a Workplace Savings Plan, Coverdell Education Savings Accounts, and 529 plan accounts) are assumed to have met all the requirements for tax-free distributions and, therefore, are assumed to be tax free at both the federal and state levels. Distributions from a Roth IRA, and Roth 401(k)/403(b) sources in a workplace savings plan, are tax free if they have met the five-year holding requirement and its owner is at least age 59½, disabled, or deceased. The tool assumes that the workplace savings plan rules allow for withdrawal by source. Distributions from Coverdell Education Savings Accounts and 529 plan accounts are federal income tax free if they are used for qualified educational expenses. Tax treatment of qualified distributions from 529 plan accounts varies by state and may depend on whether you are a resident of the state offering the plan. Distributions that do not qualify for tax-free treatment may be subject to income taxes and may also be subject to a 10% penalty.
- Tax-advantaged accounts, including tax-free accounts, entered under the "approximate" method are all assumed to be tax deferred, and the tool assumes that distributions from them are fully taxable as ordinary income. After-tax income from tax-free accounts entered under the "approximate" method may, therefore, be underestimated by the tool. Note also that if tax-deferred accounts contain significant amounts of nondeductible or after-tax contributions, the tax analysis performed by the tool may not be as meaningful as it would otherwise be. To the extent distributions from these accounts constitute a return of after-tax or nondeductible contributions, the tool will understate your after-tax income.
- For tax-deferred accounts and annuities that may hold both pretax and after-tax (deductible and nondeductible) contributions, the tool assumes that balances in such accounts at the beginning of your planning period consist of all pretax assets. If you indicate that you intend to contribute after-tax (deductible) contributions to such accounts in the future, the tool will not tax such projected future after-tax contributions when they are distributed. Note that if information relating to significant tax-deferred accounts or annuities to which nondeductible or after-tax contributions have previously been made is entered into the tool, the tax analysis performed by the tool may not be as meaningful as it would otherwise be. To the extent distributions constitute a return of after-tax or nondeductible contributions, the tool will understate your after-tax income. For example, an IRA may have an account value of \$100,000, of which \$50,000 constitutes nondeductible (or already taxed) contributions. The tool will assume that any amount distributed from the IRA is taxable as ordinary income. This assumption is also true if the amount distributed from the IRA is then used to purchase a deferred annuity. For nonqualified annuities bought and held through Fidelity, the tool will calculate a cost basis recapture amount based on information recordkept by Fidelity. Notwithstanding the foregoing, Roth 401(k) and Roth 403(b) balances within 401(k) and 403(b) plans recordkept by Fidelity will be tracked separately and all withdrawals from them will be assumed to meet the requirements for tax-free distributions.

- Distributions taken before age 59½ from annuities, traditional IRAs, Roth IRAs, SEP-IRAs, SIMPLE IRAs, Keogh accounts, and employer-sponsored savings accounts (e.g., 401(k), 401(a), 403(b), and governmental 457(b) plans) may be subject to a 10% early withdrawal penalty. Withdrawals from certain employer-sponsored savings accounts are penalty free when the account owner leaves the employer in the year he or she turns age 55 or older. This age 55 exception does not apply to any type of IRA. The tool assumes no early withdrawal penalty if you plan to separate from service with your current employer after age 55. The tool assumes no early withdrawal penalty after age 59½ for all other workplace savings plan assets. Please note that for Roth sources in a workplace savings plan, the early withdrawal penalty is applicable to the earnings only. Therefore, when applicable, the tool assesses an early withdrawal penalty of 10% on the amount of the distribution. Note that there are other applicable special exceptions to the 10% early withdrawal penalty that the tool does not consider in its calculations. Note that early withdrawals from a SIMPLE IRA may be subject to a 25% penalty that the tool does not take into account. You may want to consult a tax advisor to learn more about withdrawal requirements.
- For manually entered “generic” retirement accounts, the tool assumes no early withdrawal penalties.
- The tool assumes that after age 70½, you and your spouse will be required to withdraw the IRS minimum required distribution (MRD) annually from your traditional IRA, rollover IRA, SEP-IRA, SIMPLE IRA, Keogh, and employer-sponsored savings plan accounts (e.g., 401(k), 401(a), 403(b), and 457(b) plans) even though some plans may allow you to defer such MRDs until a later date. The tool does not apply any MRD rules to deferred annuities. Income annuities purchased with pretax money automatically satisfy the MRD rules for the portion of your assets used to buy the income annuity.
- For each year beginning in the year you or your spouse reaches age 70½, the tool calculates an estimated MRD amount needed to comply with the IRS requirements (for applicable retirement accounts indicated, or those accounts for which you have entered data).
- For Roth 401(k)/403(b) sources, the tool assumes that those monies are rolled over to a Roth IRA and therefore are not subject to the MRD rules. In most cases, the tool calculates your MRD under the uniform distribution method relying on the Uniform Lifetime Table, which uses the joint life expectancy of you and a beneficiary deemed to be 10 years younger than you for each year until the end of your planning age.
- One exception to the above MRD calculation method occurs when you indicate that you are married and your spouse is more than 10 years younger than you. The tool then assumes that your spouse will be your sole beneficiary each year for the entire year and, as a result, it will then estimate your MRD under the spousal exception method, which uses the life expectancy of you and your spouse as reflected in the Joint and Last Survivor Table. If your spouse’s planning age ends before your own, the uniform distribution method will then be used until the end of your planning age. The tool uses the same methodology to calculate MRDs on your spouse’s retirement accounts, where applicable.
- For tax-advantaged accounts that are inherited, the tool estimates MRDs by assuming you are eligible to take such distributions over your own life expectancy and using a distribution factor in the IRS’s Single Life Expectancy Table based on your projected age each year. The calculation of MRDs for inherited accounts is highly specific to your individual situation. If you have such an account, you should consider consulting an advisor for more details.
- After MRD amounts are withdrawn from retirement accounts (excluding pension plans), the tool assumes that these savings are redeposited in a hypothetical taxable account and are available to meet retirement goal expenses. You should consult your tax or financial advisor for assistance with your specific circumstances. If you are a participant in a 403(b) plan and are under the age of 75, you may exclude from your MRD any amounts accumulated in your 403(b) plan account as of 12/31/86 (if your pre-1987 403(b) account balances were accounted for separately) by entering your pre-1987 account balance where indicated in the tool. The tool will exclude this balance only for years when you are/were under the age of 75. For plans recordkept at Fidelity, the tool does not automatically consider any pre-1987 balances.

#### **Taxation of Annuities**

For tax-deferred annuities that may hold both pretax and after-tax (deductible and nondeductible) contributions, the tool assumes that balances in such accounts at the beginning of the planning period consist of all pretax assets. Annuity distributions will be considered taxable by the tool and taxed at ordinary income tax rates.

Some states charge a state tax premium either on the purchase amount of a deferred annuity or on its value at the time it is annuitized (i.e., converted to an income annuity). The tool does not take those premium taxes into account.

For partial withdrawals from tax-deferred annuities that have not been annuitized, the tool assumes that such withdrawals are taken first from earnings and then from your after-tax investment in the contract (if any was assumed by the tool). For payments from an income annuity, the tool assumes that a portion of each withdrawal is a return of your after-tax investment in the contract (if any was assumed by the tool) and a portion is taxable income. Once all your investment in the contract is returned to you, the tool assumes all payments are taxable income. The breakdown between return of investment contract and income is done using an exclusion formula similar to that required by tax regulations.

### Substantially Equal Periodic Payments

The Internal Revenue Code states that the 10% premature distribution tax penalty generally applicable to withdrawals from tax-deferred assets in IRAs and qualified retirement plans before the individual reaches age 59½ will not apply to distributions that are part of a series of substantially equal periodic payments. The tool assumes that such distributions are subject to any applicable income taxes based on the type of tax-advantaged account from which they are taken and are not subject to the 10% penalty.

These payments must be made at least annually, based on the life or life expectancy of the individual or the joint lives or joint life expectancy of the individual and his or her designated beneficiary. The series of payments must continue for the longer of five years or until the individual reaches age 59½. There are also a number of other requirements not listed here that a substantially equal periodic payment program must meet each year or a 10% penalty will apply retroactively to all distributions made under the program. See your tax advisor for more details.

The IRS considers the following three methods to be acceptable for calculating substantially equal periodic payments. (Note that the IRS has approved other methods for calculating these types of payments through private letter rulings, and you should consult a tax professional if you wish to pursue other methods.)

- Minimum Required Distribution (MRD) method—uses the IRS-approved method for calculating MRDs. The account balance, life expectancy, and annual payments are redetermined each year and so may be subject to fluctuation.
- Amortization method—the annual payment is determined by amortizing the individual's account balance in level amounts over a specified number of years. The account balance, life expectancy, and resulting annual payment are determined once for the first distribution year, and the annual payment amount is the same amount in each succeeding year thereafter.
- Annuitization method—the annual payment is determined by dividing the individual's account balance by an annuity factor using the IRS mortality table. The account balance, annuity factor, interest rate, and resulting annual payment are all determined once for the first distribution year, and the annual payment amount is the same amount in each succeeding year thereafter. Please check your workplace savings plan for plan-specific substantially equal periodic payment options available. Note, however, that substantially equal periodic payments cannot be taken from an employer-sponsored retirement plan if you have not separated from service from that employer.

### Nonqualified Deferred Compensation Plans

For nonqualified deferred compensation plans, the tool assumes there are no predefined rules or elections for taking distributions. The tool permits distributions from nonqualified plans at any time, and never forces distributions to occur. There are no MRDs and no penalties for early withdrawal (i.e., before age 59½). All distributions from nonqualified plans are assumed to be fully taxable as ordinary income. The tool also assumes that FICA taxes are not due at retirement (or at any time of distribution) but are paid on an ongoing basis.

### Retirement Medical Benefit Account

If your plan offers Retirement Medical Benefit Accounts (RMBAs) within the workplace savings plan, the tool does not distinguish these assets from the other assets in the plan. The tool's tax assumptions for these accounts are, therefore, the same as for the workplace savings plan of which they are a part. For purposes of the tool, the limitations on withdrawals of RMBA assets are disregarded and such assets may be applied to any retirement expenses. Please check your plan rules for specific details of limitations on withdrawals of RMBA assets.

### Defined Benefit Pension Plan Assumptions

For federal, state, and local income tax purposes, the tool uses the following assumptions for qualified and nonqualified defined benefit pension plans:

- All pensions recordkept at Fidelity are assumed to be fully taxable upon distribution.
- FICA tax withholding on nonqualified pension plan payments is not reflected. FICA tax must normally be withheld on non-qualified pension plan payments received. If you are receiving or are set to receive payments from a nonqualified plan, the tool will overstate net amounts available to you to apply toward your retirement expenses.
- Any lump-sum values reflected will be treated as having been rolled over from a qualified plan to an IRA for purposes of calculating your retirement income in the tool notwithstanding that the lump sum may come from a nonqualified pension plan. Payments from nonqualified pension plans cannot usually be rolled over to a tax-deferred account.
- Imposition of MRD rules are not reflected. MRD rules normally apply.
- Other pension payment amounts are based on information you enter about the annual benefit you expect to receive. You may want to contact your employer for a personalized pension projection. Be sure that the benefit amount reflects the provisions of any qualified domestic relations order that provides benefits to alternate payees.
- Estimates of future pension benefits are not adjusted for the tool's inflation rate. However, pension benefit amounts may include a salary growth rate. This growth rate will be provided by you or your company's pension plan (if Fidelity recordkeeps the pension). If applicable, the salary growth rate may be applied to the remaining years of service with an assumed retirement age of 65. Any lump-sum values reflected will be treated as an account in the Asset section for purposes of calculating your retirement income in the tool. This may account for any changes in represented value between lifetime income and investment income shown. Please consult your tax advisor if you have any questions regarding the taxability of your pension benefit.

The tool models distributions from your assets without consideration for any time period when assets may be frozen.

## Order of Withdrawals

For retirement expenses, the tool assumes withdrawals from accounts in the following order:

- Taxable Accounts
- Nonqualified Deferred Compensation Plans
- Traditional IRAs
- SIMPLE IRAs
- SIMPLE 401(k) Plans
- SAR-SEP IRAs
- SEP-IRAs
- Keogh Plans (Fidelity Retirement Plans)
- Manually Entered Retirement Accounts
- Tax-Deferred Annuities
- Employer Stock Ownership Plans
- 401(a) Qualified Plans (Other than 401(k) Plans)
- 457(b) Plans
- 403(b) Plans (non-Roth Source Balances)
- 401(k) Plans (non-Roth Source Balances)
- Money Purchase Plans
- Roth Source in a 401(k)
- Roth Source in a 403(b)
- Roth IRAs

## Avoiding Penalties—Account Skip-Over Assumptions for Withdrawals

An account is skipped when making withdrawals if a withdrawal would result in a penalty and/or taxation that could be avoided if the withdrawal were made later. Skipping over means that for one year in question, the account is skipped on the first pass of making withdrawals. All accounts that don't have penalties or taxes are to be avoided or depleted before accounts that do. The skip-over is a "first pass" only, meaning if more money is needed after depleting accounts without penalties or taxes to be avoided, the account will be used for withdrawals and penalties/taxes applied. The same rule applies within accounts that have more than one type of balance, such as a 401(k), which has Roth and non-Roth balances. The withdrawal skip-over provision attempts to minimize penalties and unnecessary taxes.

For tax-deferred accounts that may hold both pretax and after-tax (deductible or nondeductible) contributions, the tool assumes that balances in such accounts at the beginning of your planning period consist of all pretax assets. If you indicate that you intend to contribute after-tax (nondeductible) contributions to such accounts in the future, the tool will not tax such projected future after-tax contributions when they are distributed. Likewise, all annuities (except for nonqualified annuities purchased and held through Fidelity) are assumed to be pretax. As a result, the potential additional taxes calculated by the tool may make the outcome less meaningful. Notwithstanding the foregoing, Roth 401(k) and Roth 403(b) balances within 401(k) and 403(b) plans recordkept by Fidelity will be tracked separately and all withdrawals from them will be assumed to meet the requirements for tax-free distributions.

If your plan offers Retirement Medical Benefit Accounts (RMBAs) within the workplace savings plan, the tool does not distinguish these assets and applies them toward your overall retirement plan as pretax assets. For purposes of the tool, the limitations on withdrawals of RMBA assets are disregarded and such assets may be

applied to any retirement expenses. Please check your plan rules for specific details of limitations on withdrawals of RMBA assets.

If you have multiple accounts of the same type, the tool withdraws from one account until it is exhausted, then withdraws from the next account based on the order you enter them into the tool. When assets in one account type are exhausted, the next set of accounts is used.

## Salary Growth Rate

The tool defaults to a salary growth rate that equals the tool's inflation rate plus 1.5%. The salary growth rate is applied to your salary plus any applicable bonus and commissions you enter. This figure is derived from data from the Department of Labor and the U.S. Census Bureau. If you want to change the salary growth rate, use the Add/Edit Details link for each person's salary and update accordingly. Note: If you modify the general inflation rate for the tool, the salary growth rate will remain 1.5% above the default inflation setting. Please note that any income specifically associated with post-retirement part-time work is not subject to changes in the assumed salary growth rate. Please see the Dollar Values: Future vs. Current section for additional details on the current inflation rate used in the tool.

## Other Taxable Income or Events

- *Social Security Benefits:* Social Security benefits are not taxed at the state level. Note that up to 85% of your full Social Security benefits may be taxable or your payments may be reduced if your other income puts your total annual income over certain limits. The tool will estimate the portion of your Social Security benefit that is reduced and/or taxable as ordinary income at the federal level by following the guidelines issued by the IRS. This income, after taxes are withheld, is assumed to be invested in a hypothetical taxable account and made available to pay retirement expenses.
- *Part-time Earnings and Other Additional Earned Income:* The tool assumes that all such income is taxed at ordinary income tax rates in the year it is earned. This income, after taxes are withheld, is assumed to be invested in a hypothetical taxable account and made available to pay retirement expenses.
- *Rental Income and Royalty Income:* The tool assumes that all such income is taxed at ordinary income tax rates in the year it is earned. Different tax rules may apply depending on whether you receive rental income as part of a rental business, the expenses associated with your rental property, and/or the particulars of the type of royalty income you earn. You may wish to consult a tax advisor for further details. This income, after taxes are withheld, is assumed to be invested in a hypothetical taxable account and made available to pay retirement expenses.
- *Distributions of the Cash Value of Life Insurance:* The tool assumes that any distribution of the cash value of an insurance policy is taxable as ordinary income, although any increase in the cash value of a life insurance policy will be tax deferred while it remains within the life insurance investment. The tool does not take into account loans that are taken against the cash value of a life insurance policy. This income, after taxes are withheld, is assumed to be invested in a hypothetical taxable account and made available to pay retirement expenses.

- *Sale of Stock Acquired through Stock Options:* The tool assumes that all income received on the sale of stock options is taxable as ordinary income and that the net proceeds are invested in a hypothetical taxable account. The taxation of stock options is highly specific to the particulars of the stock options you have—qualified vs. nonqualified, restricted vs. non-restricted, immediate vesting vs. a vesting schedule, etc. You may wish to consult a tax advisor regarding the specific tax rules that would apply to your stock options.
- *Sale of Non-Financial Asset:* The tool assumes that you sold the asset for cash, that all the proceeds are taxable as ordinary income, and that the net proceeds are invested in a hypothetical taxable account. If you entered basis information in the tool, the tool will not tax the basis. There may be special tax rules that apply to the sale of certain types of non-financial assets. You may wish to consult a tax advisor for more details.
- *Sale of Home:* If the sale is entered as an asset with a specified sale date, the tool assumes that the home was your principal residence for at least two tax years of the five tax years prior to the home sale and that you met all the other requirements for the capital gains tax home exclusion, which allows you to exclude the following amounts of net long-term capital gains from taxable income on your federal tax return: \$250,000 if single (or \$500,000 if married, filing jointly), as adjusted yearly for inflation. All other gain on the sale of your home is assumed by the tool to be ordinary income taxable in the year of the sale. If you entered basis information in the tool, the tool will not tax the basis. For more details on this income exclusion and its requirements, you may wish to consult a tax advisor. If a home sale is entered as an income source within the Income section of the tool or as a financial event within the Asset section of the tool, the tool assumes no home exclusion and taxes all the proceeds as ordinary income in the year of the sale. The tool assumes that the net proceeds of the sale are invested in a hypothetical taxable account.
- *Sale of Other Real Property:* The tool assumes that you sold the property for cash, that all the proceeds are taxable as ordinary income, and that the net proceeds are invested in a hypothetical taxable account. If you entered basis information in the tool, the tool will not tax the basis. There may be special tax rules that apply to the sale of real property that is not your home/principal residence. You may wish to consult a tax advisor for more details.
- *Sale of Business:* The tool assumes that you sold the business for cash, that all the proceeds are taxable as ordinary income, and that the net proceeds are invested in a hypothetical taxable account. If you entered basis information in the tool, the tool will not tax the basis. There are many ways to structure the transfer of a business or the assets owned by a business with various tax consequences. You may wish to consult a legal and/or tax professional if you are considering selling a business.
- *Inheritance:* The tool assumes that the entire amount of the inherited assets you enter is sold for cash and that such proceeds are invested in a hypothetical taxable account. The tool assumes that the amount you enter is the after-tax amount, and therefore does not assume any taxes on it.

## Federal Income Tax Calculations

Estimated federal income taxes are automatically calculated for you by the tool based on the information you provide and hypothetical account activity in each simulation. An estimate of taxable income is calculated for a given year and is then taxed based on federal income tax rates and certain other items, such as those listed below, projected to then be in effect at that time. The tool assumes that the tax rates, tax credits, and other limits set forth below will be in effect to the end of your plan. If this assumption is incorrect, it may result in understated estimated tax liabilities and, therefore, overstated after-tax income available for future expenses.

- **Tax rates—ordinary income:** The tool assumes ordinary income tax rates of 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%.
- **Tax rates—long-term capital gains:** The tool assumes long-term capital gains tax rates of 0% and 20%. Depending on your marginal income tax rate, you may be subject to the 15% long-term capital gains tax rate, which is not included in the tool. Consequently, this assumption could overstate estimated tax liabilities and thus understate your available after-tax income.
- **Tax rates—qualified dividend income:** The tool assumes that qualified dividend income is taxed at the applicable long-term capital gains tax rates described above.
- **Standard deduction and tax bracket “marriage penalties”:** The tool assumes that married joint filers can take a standard deduction twice that of the standard deduction available to a single filer, and that their 10% and 15% brackets are also twice that of a single filer.
- **Itemized deduction and personal exemption phaseouts (by income level):** The tool assumes that higher-income taxpayers are subject to limitations on available itemized deductions and that their personal exemptions are subject to phaseouts.
- **Child tax credit amounts:** The tool assumes that the child tax credit is \$1,000 per eligible child.

## State and Local Income Tax Calculations

You will need to enter your state of residence and local income tax rate information (if applicable). The tool is updated annually with the tax rates for each state, but local taxes are your responsibility to enter. Once the local income tax rate is entered, local taxes are calculated based on state taxable income. If no local income tax rate is entered, the tool assumes that there is no local income tax. State tax calculations are intended to provide a reasonable approximation of state taxes for any given year. State taxes are calculated based on assumed identical state tax rules subject to the following exceptions where state-specific rules are reflected:

- Income tax rates and income tax brackets
- Deductibility of federal taxes paid
- Exemption amounts

- Standard deduction amounts
- Ability to itemize deductions
- Inclusion (taxation) of only certain types of income (such as interest and dividends)

Note that each state has specific rules and special deductions, credits, and additional taxes and adjustments. The tool does not reflect all such state-specific rules and should not therefore be used for purposes of calculating actual state tax liabilities or benefits.

### Other Tax Assumptions

For federal, state, and local income tax purposes, the tool uses the following other assumptions:

- Tax brackets, standard deduction amounts, and personal exemption amounts are indexed each year for inflation.
- Potential applicability of alternative minimum tax (AMT) rules is not reflected.
- Potential applicability of the Medicare surtax on investment income is not reflected.
- Potential applicability of transfer (estate, gift, and generation-skipping transfer) tax rules is not reflected.
- Assets at end of plan have not been reduced by applicable federal and/or state transfer or inheritance taxes that may be due at death or upon transfer.
- Assets at end of plan have not been reduced by applicable income taxes that may be due at a later date.
- Future earnings on assets at end of plan are reduced by applicable income taxes.

## 6. SOCIAL SECURITY BENEFITS

The Social Security retirement benefit estimated by the tool is based on your date of birth, your most recent earned income amount, and the retirement age you enter (the Supplemental Security Income program [SSI] retirement benefits commencement age may be no earlier than age 62 and no later than age 70). Surviving spouses can start taking early Social Security by the age of 60 years. Surviving spouses who are also disabled can begin taking early Social Security by the age of 50, but only if the recipient qualifies for disability payments.

Social Security retirement benefits are adjusted by the application of a cost-of-living adjustment (COLA) increase defined in a federal legislative enactment. The tool estimates increasing future Social Security retirement benefits using the tool's default inflation rate, which is updated from time to time. When the retirement age you enter is the same as your full retirement age, as defined by the Social Security Administration (SSA), a default benefit amount is retrieved from a table provided annually by Fidelity Actuarial Services.

If the defined retirement age you enter is younger than the full retirement age as defined by the SSA, the full retirement benefit is adjusted down to acknowledge an early benefit start date. Benefits can start as early as age 62 for individuals with a full retirement age of 65, 66, or 67. The earlier a benefit start date is from the full retirement age, the greater the reduction will be; the reduction currently can reach a maximum of approximately 30%.

Notes:

- Early commencement benefit reductions are permanent.
- An SSA reduction table is used to calculate the adjustment.

If the defined retirement age you enter is older than the full retirement age as defined by the SSA, the full retirement benefit is adjusted upward to acknowledge a delayed benefit start date. Benefits can be deferred up to age 70 for individuals with a full retirement age of 65, 66, or 67. The later a benefit start date is from the full retirement age, the greater the premium is; the deferral can result in a premium currently reaching a maximum of approximately 37%. Deferring benefits beyond age 70, however, will not increase the benefit any more.

Notes:

- Deferred commencement benefit premiums are permanent.
- An SSA premium table is used to calculate the adjustment.

If you earn income while receiving Social Security benefits and you are under your full retirement age, your benefits may be reduced. After you reach your full retirement age, earned income should not reduce your benefits. The tool estimates the reduction in benefits up to the month before you reach your full retirement age. In the month you reach your full retirement age, and thereafter, the tool assumes no reduction in your benefits.

Social Security is assumed to be received until your death or the death of your spouse. The tool assumes that your spouse qualifies for Social Security survivor benefits. If both you and your spouse receive individual Social Security benefits, the tool assumes that the higher of the two benefits will be received by the surviving spouse.

If you have obtained an estimate of benefits directly from the Social Security Administration, you may prefer to enter that amount. If you do not expect to receive Social Security or want to calculate a retirement income plan based on other sources alone, enter \$0 for the amount.

For more information, see the Social Security Administration Web site at <http://ssa.gov>. Please consult your tax advisor if you have any questions regarding the taxability of Social Security income. See also Tax Calculations and Assumptions for additional details on material tax assumptions related to Social Security income and how the tool calculates estimated income taxes on Social Security income.

## 7. HEALTH CARE INFLATION ASSUMPTIONS

The tool makes the following inflation assumptions and does not allow you to change these inflation rates.

- **Health Care Costs:** The default inflation rate of health care costs is 7%. This figure is based on a study by the Centers for Medicare & Medicaid Services (CMS) (an agency of the U.S. Department of Health and Human Services) estimating growth in health care costs between 2001 and 2011.
- **Long-Term-Care Costs:** The default inflation rate of long-term-care costs is 5.5% modeled in the what-if scenarios. This figure is based on a study by the Centers for Medicare & Medicaid Services (an agency of the U.S. Department of Health and Human Services) estimating growth in long-term-care costs between 2001 and 2011.
- **Long-Term-Care Insurance Premiums:** The default inflation rate of long-term-care insurance premiums entered in the Budget Worksheet is 0%. This figure is based on the assumption that your insurance premiums are fixed and level.

## 8. WHAT-IF SCENARIOS

What-if scenarios allow you to see the potential impact of changing certain aspects of your plan to help reduce key retirement income risks. What-if scenarios include:

### • What if you retire later (or sooner)?

If you are not already retired, retiring later could allow your savings to grow longer, helping to give you a better chance of having sufficient assets to meet your retirement expenses. You can vary your retirement age or that of your spouse (if appropriate), then see the potential effect of this change on your retirement income plan, based on a historical performance analysis. On the analysis page, the tool will display a preview of the potential impact of retiring one year later.

### • What if you change your retirement living expenses?

Spending less in retirement can help you meet your retirement income needs. You can change your discretionary and essential expenses in retirement, and then see the potential effect of this change on your plan, based on a historical performance analysis. On the analysis page, the tool will display a preview of the potential impact of reducing your expenses by 10%.

### • What if you save more?

If you are not already retired, you can vary the amount of money you are saving for retirement, then see the potential effect of this change on your retirement income plan based on a historical performance analysis; however, past performance is no guarantee of future results. In this what-if scenario, the tool models tax-advantaged account contributions without consideration for contribution limits or withdrawal rules.

### • What if you change your workplace savings contributions?

If applicable, you can change how much you intend to contribute to your retirement savings. The tool shows you the potential effect of this change on your plan, based on a historical performance analysis; however, past performance is no guarantee of future results.

### • What if you take a job during retirement?

You can include income you expect to receive (i.e., from a part-time job) during retirement. The tool will then show you the potential impact of this change on your plan, based on a historical performance analysis; however, past performance is no guarantee of future results.

### • What if you change your asset allocation?

At Fidelity, we believe that asset allocation is one of the most important factors in determining the performance of an investment portfolio. In the tool, you can choose from one of six target asset mixes for hypothetical investors like you. The tool shows the potential effect of a new hypothetical asset allocation on your results, based on a historical performance analysis. Remember, past performance is no guarantee of future results and asset allocation does not ensure a profit or guarantee against loss.

### • What if you use Fidelity's model asset allocation?

Based on the information you provide, the tool can suggest one of six target asset mixes designed for a hypothetical investor like you that has a high probability for making your money last. By evaluating your responses to risk tolerance questions, the duration of your retirement, your income needs, and your age, the tool models a target asset mix for you to consider for your portfolio. The tool shows the potential effect of a new hypothetical asset allocation on your results, based on a historical performance analysis. Remember, past performance is no guarantee of future results and asset allocation does not ensure a profit or guarantee against loss.

### • What if you require long-term care?

If you do not have long-term-care insurance, you may want to consider the costs of long-term care in the later years of your plan. These costs will be modeled with the long-term-care inflation rate described previously.

### • What if your pension has a survivor benefit?

If you have a pension, survivor benefits allow a spouse to continue receiving benefits after the death of the plan owner. Adding survivor benefits may reduce your pension payments. Check with your plan sponsor for specific details relating to your plan.

### • What if you change your pension payment option?

Selecting the appropriate pension for your situation is one of the most important factors in determining whether your funds will last for the life of your plan (and, if applicable, your spouse's plan). The tool provides all the payment options available to you through your employer for Fidelity-recordkept pensions and allows you to see the effect of each on your retirement income plan.

### • What if you (or you and your spouse) live longer?

You may adjust your planning horizon to see what would happen to your plan if you lived longer or died sooner. Be sure to take into account your personal and family medical histories.

### • What if you change your assumptions of market performance?

To help you estimate how your retirement assets may grow, the tool performs a historical performance analysis. In this analysis, the tool uses actual historical market data to create a minimum of 250 hypothetical market scenarios. The tool then graphs results of the analysis based on how an asset allocation similar to your asset allocation (or your selected target asset mix) performed in a

certain percentage of the simulated market scenarios. The default percentage is 90%, considered a “Very Conservative” estimate of market performance, which means that in 90% of the market scenarios, the asset allocation performed as well as or better than the results shown. Fidelity uses this 90% figure so as to err on the side of a more conservative estimation of future market performance. You can adjust the confidence level to view other scenarios of market performance as you require, but note that while changing it may appear to improve your results, you have increased the risk that your assets will not perform as anticipated.

- **What if you change your inflation rate assumptions?**

The tool uses a default inflation rate based on the historical, average inflation rate and the forward-looking Fed target inflation rate. This rate is reviewed annually. If you anticipate a different rate of inflation in the future, you can specify an alternative rate, then see the effect on your results. Pension plans may use a different inflation rate. For health care expenses entered through the detailed budget worksheet, the default inflation rate will remain at 7% and long-term-care insurance will remain at 5.5%. Note that changing the inflation rate will affect the return assumptions. For example, raising the inflation rate will also increase the return assumptions for stocks, which may make your results appear better and also may make them less conservative. Please see the Dollar Values: Future vs. Current section for additional details on the current inflation rate used in the tool.

Based on your situation, some of these what-if scenarios may not appear.

## 9. EXPLANATIONS OF ALL CONCEPTS REPRESENTED IN THE RESULTS

This page includes prerun “what-if” scenarios, which allow you to see the potential impact of making incremental changes to certain aspects of your plan to help reduce key retirement income risks. These prerun what-if scenarios include:

- **What if you retire later?**

If you are not already retired, retiring later could allow your savings to grow longer, helping to give you a better chance of having sufficient assets to meet your retirement expenses. On the analysis page, the tool will display a preview of the potential impact of retiring one year later, based on a historical performance analysis.

- **What if you change your retirement living expenses?**

Spending less in retirement can help you meet your retirement income needs. On the analysis page, the tool will display a preview of the potential impact of reducing your expenses by 10%. The tool will reduce your discretionary expenses first, and then move to reduce essential expenses if necessary to meet the 10% reduction.

- **What if you use an income annuity to supplement your plan?**

If you meet certain criteria, the tool allows you to explore using a lifetime income annuity as a possible source of retirement income. On the analysis page, the tool will display a preview of the potential impact of purchasing an immediate fixed-income annuity using 10%, 20%, 25%, or 30% of your total portfolio value allocated to your retirement goal. For the hypothetical fixed-

income annuity purchase, the tool calculates the purchase of a lifetime fixed-income annuity with a 100% survivor benefit and a 10-year period of guaranteed income in the event of premature death. Guarantees are subject to the claims-paying ability of the issuing insurance company. Fixed annuity factor amounts are obtained from industry average annuity factors provided by CANNEX, a third-party information provider.

- **What if you change your asset allocation?**

At Fidelity, we believe that asset allocation is one of the most important factors in determining the performance of an investment portfolio. In the tool, you can choose from one of six target asset mixes for hypothetical investors like you. The tool shows the potential effect of a new hypothetical asset allocation on your results, based on a historical performance analysis. Remember, past performance is no guarantee of future results and asset allocation does not ensure a profit or guarantee against loss. On the analysis page, the tool will provide retirees an access point to preview the potential impact of using the Fidelity-suggested asset allocation, based on a historical performance analysis.

This page also includes some terms that are used in the analysis of the plan:

- **First-Year Expenses:** Total annual expenses the household may incur in the first year of retirement. These expenses may include essential expenses such as housing and utilities, in addition to discretionary spending such as vacation and other leisure costs. A 2004 study conducted by AON Consulting and Georgia State University showed that most people will need from 75% to 89% of their preretirement income to maintain their standard of living.
- **Shortfall Age:** The age when the retiree(s) is estimated to have insufficient assets to meet retirement needs. The shortfall age will show if the estimated assets at retirement may not cover the estimated expenses for that year and the following years until reaching the planning age.
- **Assets at End of Plan:** The total value of the assets that you considered as part of your retirement plan and estimated to remain after reaching the planning age. If the estimate showed a shortfall age less than your retirement planning age, then the Assets at End of Plan would be 0. These values do not reflect any applicable transfer taxes if the assets were transferred to others or any income taxes that would be due on distributions from tax-advantaged accounts or due on any remaining unrealized capital gains in the taxable accounts.
- **Asset Allocation:** Asset allocation refers to the distribution of assets among different types of investments (or asset classes), including stocks, bonds, and short-term securities. Spreading your assets across varying classes and sectors may help to protect against market volatility and declining markets because each class has a different correlation to the others. Asset allocation does not ensure a profit or guarantee against loss.
- **Health Care Inflation Rate:** The annual percentage change in the cost of health care over a given period of time. It may include prescription drug costs and medical/dental insurance expenses. The tool defaults this rate at 7%.

## 10. FIDELITY-SUGGESTED ASSET ALLOCATION

### Preretirees (Less than Four Years from Retirement) and Retirees

If you are less than four years away from retirement or already retired, the tool may suggest a target asset mix (TAM) for you to consider. The Fidelity-suggested TAM is based on a careful evaluation of the information you have provided: your risk tolerance, your current age, the number of years until you plan to retire, your indicated income and expenses in retirement, and how long your retirement assets need to last. In general, the tool excludes the Short-Term and Most Aggressive target asset mixes, as they are typically not suitable for a long-term retirement plan.

The tool identifies the Fidelity-suggested TAM by first determining the difference between your sources of income (e.g., Social Security, pensions, annuities) and your indicated expenses. That is, we calculate the yearly difference between all specified expenses and all specified sources of income.

The tool then considers your retirement savings. Applying up to four different TAMs to your savings (Conservative, Balanced, Growth, and Aggressive Growth), the tool executes a historical performance analysis (using a threshold 90% confidence level and an estimate of the long-term inflation rate) to determine the likelihood of your retirement savings covering your expenses. Based on the outcome of this analysis, the tool will then suggest a TAM (Conservative, Balanced, Growth, or Aggressive Growth).

In order to determine whether any of our four TAMs is inappropriate for you (and therefore excluded from the historical performance analysis), the tool uses two filters based on the information you provided. The first filter considers your age and that of your spouse (if any). For households with an average age between 80 and 85, we do not include the Aggressive Growth TAM. The most aggressive TAM assigned to a plan with an average household age between 85 and 95 will be Balanced and, for a plan with an average household age over 95, only the Conservative TAM will be assigned.

The second filter evaluates your responses to the risk tolerance questions. Any TAMs that are more aggressive (having higher equity exposure) than your indicated tolerance for risk will be excluded from consideration.

## 11. INCOME SOURCES AND ANNUITY ASSUMPTIONS

If you meet certain criteria, the tool allows you to explore using a lifetime income annuity as a possible source of retirement income.

If you have a shortfall in expense-to-income coverage within the next four years, when at least one of those years is during retirement, the tool presents analysis of an annuity purchase option. Asset allocation does not ensure a profit or guarantee against loss. It is important to note that the annuity purchase analysis is for an immediate income annuity. The level of purchase is designed to meet the average of the shortfall during those four years. For example, if you have a shortfall of \$1,000 in year one, of \$2,000 in year two, of \$3,000 in year three, and of \$4,000 in year four, the purchase will target a replacement of \$2,500. The calculation will extend for a maximum of four years. If, for example, you are two years from retirement, the tool will look for a shortfall in the third and fourth year, representing the first two years of retirement. Additionally, for the tool to present the annuity option, you or your spouse must be within four years of retirement, from 45 to 80 years old, have at least \$25,000 available for an income annuity purchase, and have less than 50% of your current retirement income coming from income annuities. Deferred annuity assets, whether they are held as individual contracts or as positions within employer-sponsored plans, are not counted toward the 50% income threshold coming from income annuities in the income annuity analysis.

The tool provides a comparison of your income and assets over time, as well as how long your money will last for your plan with and without a hypothetical lifetime income annuity. For both strategies, the tool calculates a pool of assets estimated to meet all expenses (net of indicated sources of income) through the end of your indicated planning age (or that of your spouse, whichever is longer) with zero dollars remaining in the pool. For this calculation, the tool uses an asset allocation similar to your asset allocation (or the Fidelity model asset allocation, or the target asset mix you select) and the 90% confidence level for market returns (or, if you've changed the confidence level for market returns, the confidence level you selected is used).

The tool calculates the Withdrawals Plus Annuity analysis as follows: First, the tool identifies the ratio of fixed-income and variable-income annuities that may be appropriate for your situation. The tool considers five standard fixed-income annuity to variable-income annuity ratios (100% fixed/0% variable, 75% fixed/25% variable, 50% fixed/50% variable, 25% fixed/75% variable, 0% fixed/100% variable). Taking into account your age(s), retirement duration (planning horizon), indicated expenses, and other key information, the tool selects the ratio that is projected to provide either the highest amount of assets at the end of your planning horizon or funds your expenses for the longest period of time.

For the hypothetical fixed-income annuity purchase, the tool calculates the purchase of a lifetime fixed-income annuity with a 100% survivor benefit and a 10-year period of guaranteed income in the event of premature death. Guarantees are subject to the claims-paying ability of the issuing insurance company. Fixed annuity factor amounts are obtained from industry average annuity factors provided by CANNEX, a third-party information provider.

For the hypothetical variable-income annuity purchase, the tool calculates the purchase of a lifetime variable-income annuity with a 100% survivor benefit and a 10-year period of guaranteed income. The variable-income annuity assumes a 1% annual annuity charge and a benchmark rate of return of 3.5% and assumes that you have invested in investment options that match your selected asset allocation. Variable annuity factor amounts are obtained from Fidelity Investments Life Insurance Company. Principal value, investment returns, and income payments of a variable annuity will fluctuate and you will have a gain or loss when money is received. Taxable amounts received prior to age 59½ may be subject to a 10% IRS penalty.

The tool calculates the purchase price of a hypothetical annuity by first determining the income stream necessary to cover the current year difference between your total retirement expenses and income. The tool then determines the purchase price for an annuity that will cover that income stream by applying the fixed-income to variable-income ratio identified above. The tool applies an annuity purchase limit equal to 50% of the total current assets allocated to the retirement income goal. Note that when calculating the 50% annuity purchase limit, total current assets are adjusted to take into account the equivalent purchase cost of any existing income annuities that you indicated you own (meaning the cost necessary to currently purchase the existing annuity's income stream).

*Note:* Annuity purchase amounts do not take into account minimum and maximum purchase limits that may apply, depending on the annuity provider.

Purchases of immediate annuity contracts are assumed by the tool to be funded with assets based on the hierarchy of sources below (exhausting all sources within a given category before moving to the next category). Depending on your individual situation, the order of these sources may not be the most efficient from a tax standpoint:

- 1) Using assets distributed from tax-deferred accounts in a tax-free transaction
- 2) Using after-tax proceeds generated by the liquidation of taxable account assets
- 3) Using assets distributed from tax-free accounts

We recommend revisiting the tool periodically to determine whether purchasing additional annuities may be right for you.

The annuity option is not persistent between sessions of the tool, which means that if you model and accept the annuity purchase, it will be indicated in the action plan but will not be factored into your plan when you return to the tool.

If you want to model a different annuity level or change the suggested split between fixed and variable annuities, contact a Fidelity Representative. See Tax Calculations and Assumptions for additional details on material tax assumptions related to annuities and how the tool calculates estimated income taxes on annuities.

## 12. INVESTMENT STRATEGIES IN ACTION PLAN

If you selected a target asset mix for your plan, to help you focus on your investment strategy the asset mix displays in your Action Plan. To help you identify how you can adjust your retirement plan portfolio, we examine your asset allocation, concentration among individual stock positions, stock style diversification, and bond style diversification.

The tool uses a color-coding system of red (significant concern), yellow (concern), and green (acceptable) to assess your retirement plan portfolio against your target. A red icon indicates an aspect of your portfolio that we believe departs significantly from your target. A yellow icon indicates an aspect of your portfolio that we believe departs less significantly from your target. A green icon indicates an aspect of your portfolio that is relatively close to your target and that we believe does not require immediate attention. If more than one area of your portfolio is red or yellow, we suggest you consider addressing them in the following order:

- 1) Asset allocation
- 2) Concentration
- 3) Stock style
- 4) Bond style

Below are the specific rules for how we conduct the analysis of your retirement plan portfolio:

### Asset Allocation

**Green**—If your asset allocation among domestic and foreign stocks is within 10% of your target asset mix, we believe you are close to the target. Check the other aspects of the analysis, but continue to monitor your asset allocation on an ongoing basis.

**Yellow**—If your asset allocation among domestic and foreign stocks is within 10% to 25% of your target asset mix, you are off target. Consider rebalancing your portfolio to bring it closer to your target asset mix.

**Red**—If your asset allocation among domestic and foreign stocks is off by more than 25% from your target asset mix, we believe you are significantly off target. We suggest you rebalance your portfolio soon to bring it closer to your target asset mix.

### Concentration

Please note that specifically for manually entered accounts, the proposed analysis depends on the level of detail you provide. Fidelity encourages you to provide position-level detail for a more comprehensive assessment of your account. If you have significant net worth concentrated in a single stock, please consult your financial or tax advisor.

**Green**—If you own no individual stocks or bonds from a single issuer (except Treasury or municipal general obligation bonds—GO bonds) that represent 5% or more of your assets assigned to this goal, we believe your portfolio is not concentrated in any one position. The tool, however, is not designed to check for security concentrations that are the result of overlapping holdings in mutual funds you own. Check the other aspects of the analysis, but continue to monitor your concentration on an ongoing basis.

Yellow—If you hold only one individual stock or bond from a single issuer that represent from 5% to 10% of your goal assets or

You hold two of these and that total represents  $\leq 15\%$  of your mix or

You hold three of these and that total represents  $\leq 20\%$  of the mix, we consider your portfolio to be concentrated in those positions.

Red—If you hold only one individual stock or bond from a single issuer that represents more than 10% of your total investment mix or

You hold two of these and that total represents  $> 15\%$  of the mix or

You hold three of these and that total represents  $> 20\%$  of the mix or

You hold more than four concentrated positions, we consider your portfolio to be significantly concentrated in those positions.

If any of these conditions exist, consider rebalancing your portfolio soon to avoid concentrating much of your portfolio's risk in these securities.

### **Stock Style**

Green—We believe you are close to your target because your current portfolio's stock style diversification tracks reasonably closely to the Dow Jones U.S. Total Stock Market Index. Check the other aspects of the analysis, but continue to monitor your stock style diversification on an ongoing basis.

Yellow—We believe you are off your target because your current portfolio's stock style diversification does not closely track the Dow Jones U.S. Total Stock Market Index. We suggest you diversify your stock investments to bring your portfolio closer to your target.

Red—We believe you are significantly off your target because your current portfolio's stock style tracks significantly differently from the Dow Jones U.S. Total Stock Market Index. We suggest you diversify your stock investments soon to bring your portfolio closer to your target.

### **Why the Dow Jones U.S. Total Stock Market Index?**

The Fidelity analysis uses the Dow Jones U.S. Total Stock Market Index because a well-diversified portfolio tends to mirror the style of the broad market. The Dow Jones U.S. Total Stock Market Index is an unmanaged index that includes all companies that are traded on the active markets and represents the broadest index for the U.S. equity market, measuring the performance of all U.S.-headquartered equity securities with readily available price data. Fidelity feels no other index comes close to offering its comprehensiveness. The closer your portfolio is to the gray circle on the chart, the closer your portfolio is to the style of the U.S. broad market.

### **Bond Style**

Green—We believe you are close to your target if the bond style diversification of your current portfolio lies within either the Investment Grade–Short Term or Investment Grade–Intermediate Term box. Check the other aspects of the analysis, but continue to monitor your bond style diversification on an ongoing basis.

Yellow—We believe you are off your target if the bond style diversification of your current portfolio lies within the Investment-Grade–Long-Term, Non-Investment-Grade–Short-Term, or Non-Investment-Grade–Intermediate-Term box. We suggest you consider diversifying your bond investments to bring your portfolio closer to your target.

Red—We believe you are significantly off your target if the bond style diversification of your current portfolio lies within the Non-Investment-Grade–Long-Term box. We suggest you diversify your bond investments soon to bring your portfolio closer to your target.

### **What Is the Barclays U.S. Aggregate Bond Index and Why Use It?**

Our analysis uses the Barclays U.S. Aggregate Bond Index as a proxy representation for the broad domestic bond market. The Barclays U.S. Aggregate Bond Index is a market value-weighted index of taxable investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of one year or more. This index is designed to represent the performance of the U.S. investment-grade fixed-rate bond market. The closer your portfolio is to the gray square on the chart in the tool, the closer your portfolio is to the style of the U.S. bond market. In general, a well-diversified portfolio tends to mirror the style of the broad market.





