Fundamentals of Retirement Income Planning

Imagining tomorrow.

Strategies to help ensure your assets last a lifetime

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How will you know you're ready to retire?

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A simple question…

…without a simple answer

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Let's talk.

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- What might your retirement look like?
- Do you know your financial risks?
- How can you create a plan you'll use?
- What are the four steps to creating your retirement income plan?
- See how the pieces fit together.
- Q&A

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What might your retirement look like?

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The “good stuff”

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Time

You own it

You control it

You need to fill it

Family and Friends

Engage in more activities

Reconnect with old friends

Spend more time with grandchildren

Pursue Dreams

Make a difference

Learn something new

Start a new career

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The “not-so-good stuff” (some drawbacks)

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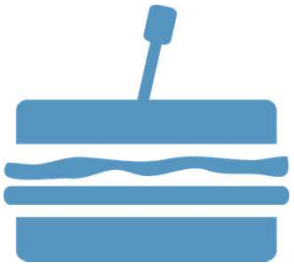
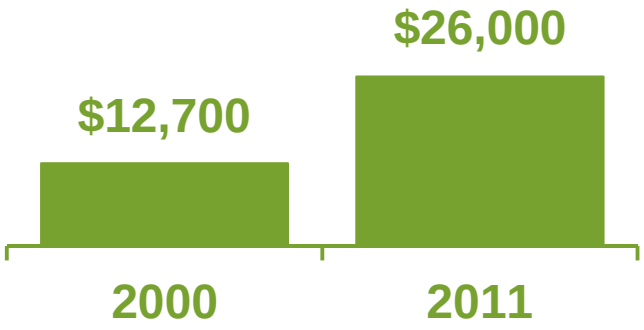
The “Club Sandwich”

47% Middle-aged adults support a parent and a minor or adult child—or grandchild[1]



Debt Remains a Factor

105% Increase in seniors’ household debt[2]



[1] McKinsey & Company, 2013.
[2] U.S. Census Bureau, 2013.

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Whatever you do in retirement, you'll need to pay for it.

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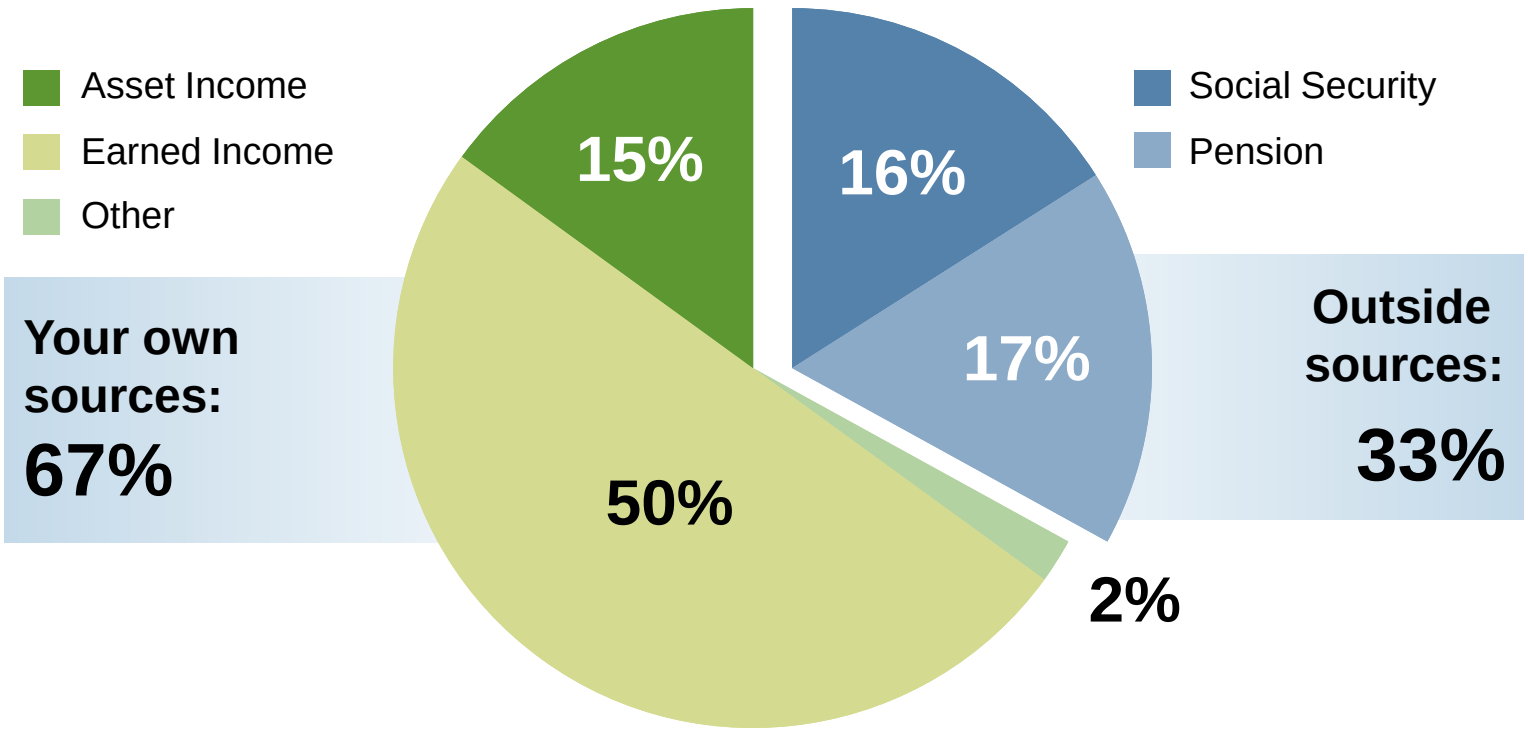
67% (or more) may be your responsibility



Source: Social Security Administration, "*Income of the Aged Chartbook, 2012,*" published April 2014.
Based on highest quintile of $63,648. For illustrative purposes only. May not add up to 100% due to rounding.

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Do you know your financial risks?

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The **five key risks** to your retirement

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1. Longevity
2. Health care expenses
3. Inflation
4. Asset allocation
5. Excess withdrawal

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Risk 1 Longevity

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Current Age	65-Year-Old Man	65-Year-Old Woman	65-Year-Old Couple
50% Chance	87 yrs.	90 yrs.	94 yrs.
25% Chance	93 yrs.	96 yrs.	98 yrs.
			Life span for one survivor

You may need income for longer than you think.

Source: Society of Actuaries RP-2014 Mortality Table projected with Mortality Improvement Scale MP-2014 as of 2016.
For illustrative purposes only.

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Risk 2 Health care expenses

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$245,000

Out-of-pocket health care expense estimate for a 65-year-old couple*

- Medicare is not free
- Supplemental health insurance is generally needed
- Rx costs may be significant
- Long-term-care coverage is additional

A sizeable amount of savings may be needed for health care in retirement.

*Fidelity Benefits Consulting, 2015. Based on a hypothetical couple retiring at age 65 or older in 2015, with average life expectancies (85 male, 87 female). Estimates are calculated for "average" retirees, but may be more or less depending on actual health status, area of residence, and longevity. Assumes individuals do not have employer-provided retiree health care coverage, but do qualify for Medicare. The calculation takes into account cost-sharing provisions (such as deductibles and coinsurance) associated with Medicare Part A and Part B (inpatient and outpatient medical insurance). It also considers Medicare Part D (prescription drug coverage) premiums and out-of-pocket costs, as well as certain services excluded by Medicare. The estimate does not include other health-related expenses, such as over-the-counter medications, most dental services, and long-term care.

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Risk 3 Inflation

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Starting value

$50,000

Purchasing power after 25 years of inflation

$30,477

2% Inflation

$23,880

3% Inflation

$18,756

4% Inflation

Even low inflation can erode purchasing power…

All numbers were calculated based on hypothetical rates of inflation of 2%, 3%, and 4% to show the effects of inflation over time; actual inflation rates may be more or less and will vary.

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Risk 3 Inflation

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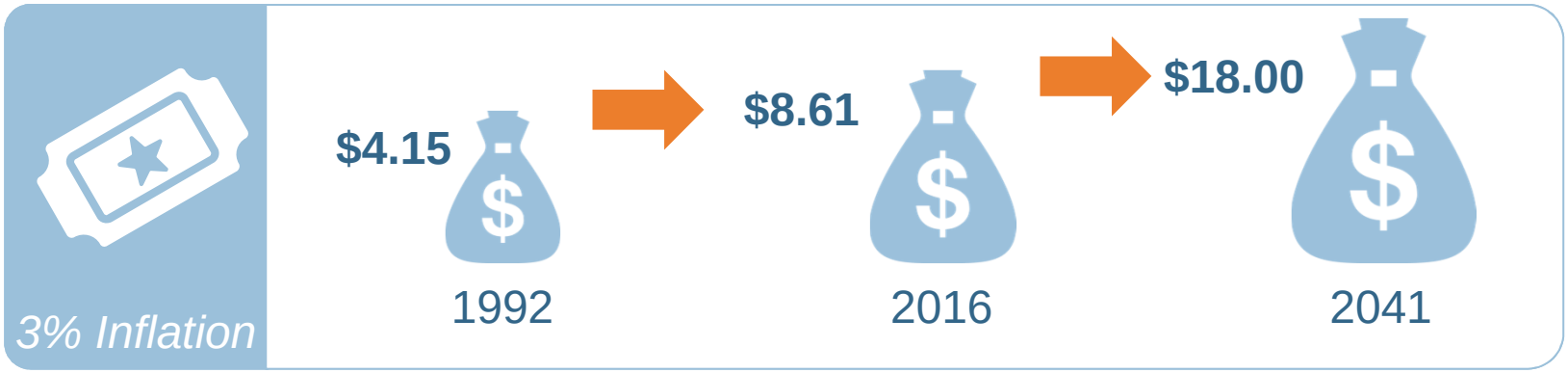

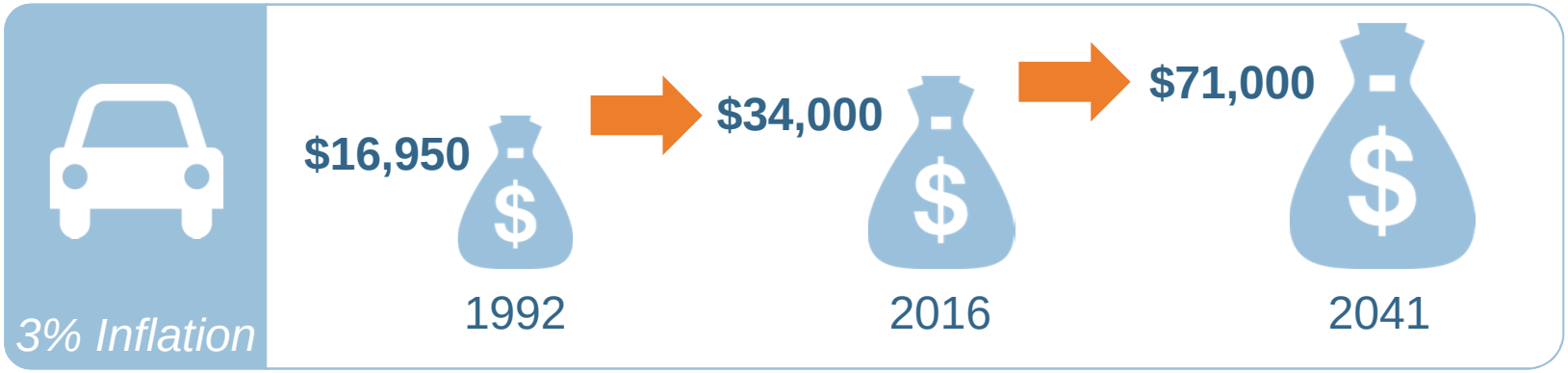

…and increase the costs of goods and services.

Future values were calculated based on hypothetical rate of inflation of 3% to show the effects of inflation over time; actual inflation rates may be more or less and will vary. National average movie prices from BoxOfficeMojo.com as of 1/18/2016. Average price of a new car in the U.S. from thePeopleHistory.com/1992 and *USAToday* estimates for 2016.

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Risk 4 Asset allocation

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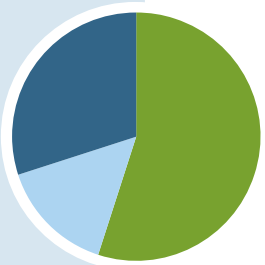
20s, 30s, 40s → **50s–early 60s** → **60s, 70s, 80s+**

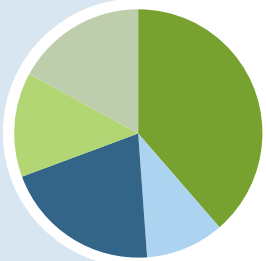
Investments geared to building:

- Stocks
- Bonds
- Short Term



Investments geared to "pay out":

- Stocks
- Bonds
- Cash
- Social Security
- Annuities



How you invest changes as you move from accumulation goals to retirement income goals.

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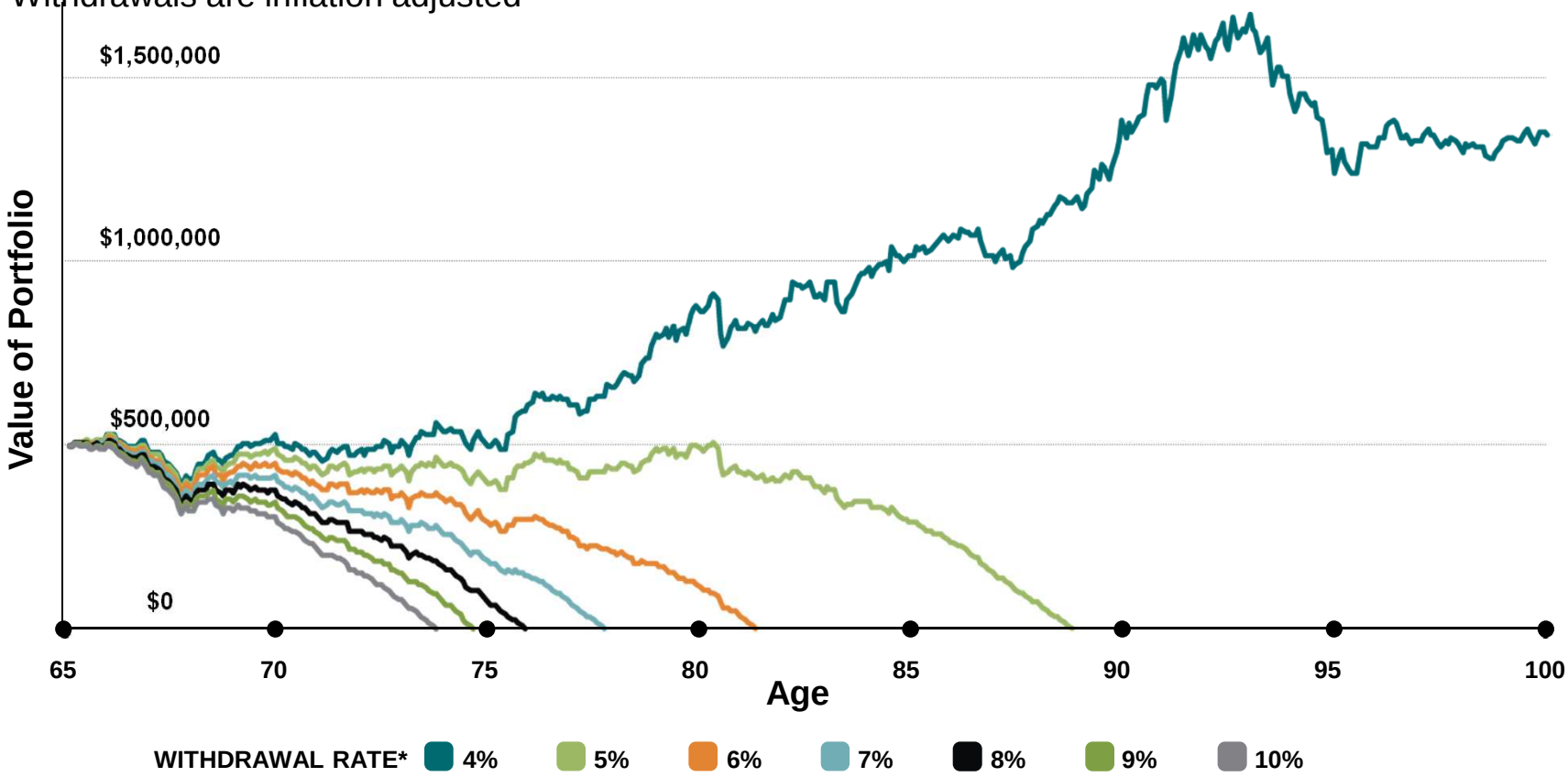
Risk 5 Excess withdrawal

Withdrawing Too Much Too Soon

Withdrawals are inflation adjusted*



*Hypothetical value of assets held in a tax-deferred account after adjusting for monthly withdrawals and performance. Initial investment of $500,000 invested in a portfolio of 50% stocks, 40% bonds, and 10% short-term investments. Hypothetical illustration uses historical monthly performance, from Ibbotson Associates, for the 35-year period beginning January 1972: stocks, bonds, and short-term investments are represented by the S&P 500® Index, U.S. intermediate-term government bond, and U.S. 30-day T-Bills, respectively. Initial withdrawal amount based on 1/12th of applicable withdrawal rate multiplied by $500,000. Subsequent withdrawal amounts based on prior month's amount adjusted by the actual monthly change in the Consumer Price Index for that month. This chart is for illustrative purposes only and is not indicative of any investment. Past performance is no guarantee of future results. See slide 40 for more information.

Why the 5 key risks are so important

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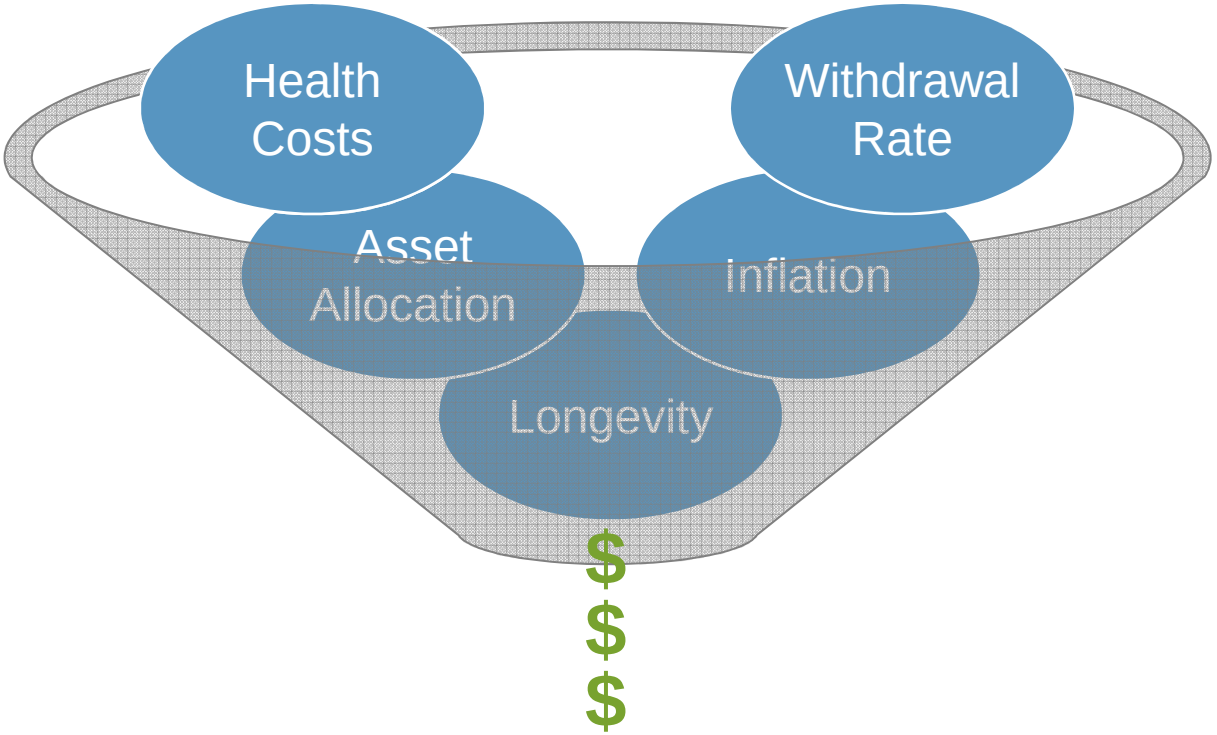
You do not control many elements…



…yet you'll need steady, reliable income to replace your paycheck.

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How can you create a plan you'll use?

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Know what a retirement income plan is designed to do.

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A detailed **plan** can help you determine how to use your **financial resources** to generate **income to last** the rest of your life.

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Understand how a retirement income plan can help you…

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- Decide when you can retire
- Understand and help to minimize the key risks
- Identify all your sources of income
- Prioritize your financial needs and wants
- Stay on track to live the retirement you want

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…and what it provides.

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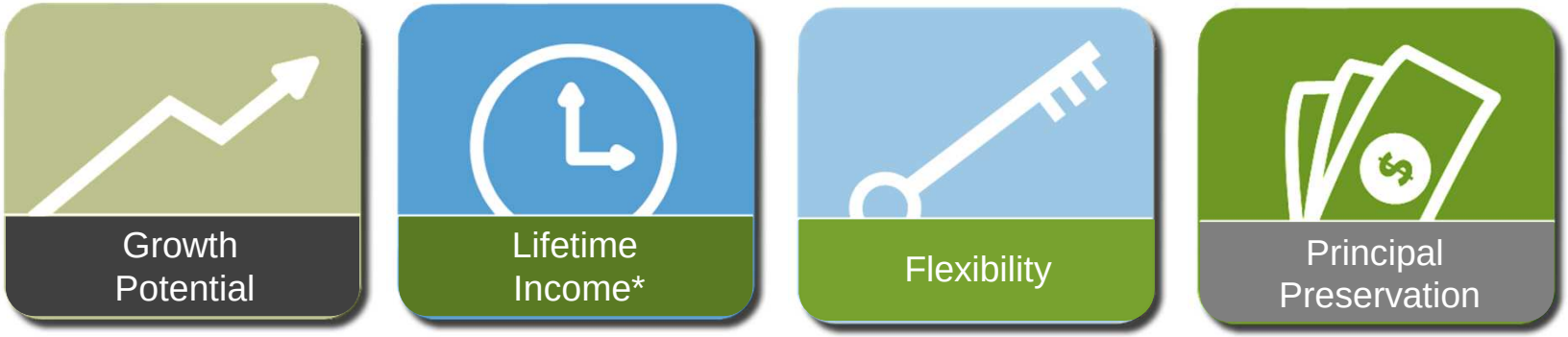
A "map" may help you **address** elements that are out of your control, **assess** your financial situation, and **align** resources to create income in retirement.



*Lifetime income applies to certain insurance and annuity products (not securities, variable, or investment advisory products) and are subject to product terms, exclusions, and limitations and the insurer's claims-paying ability and financial strength.

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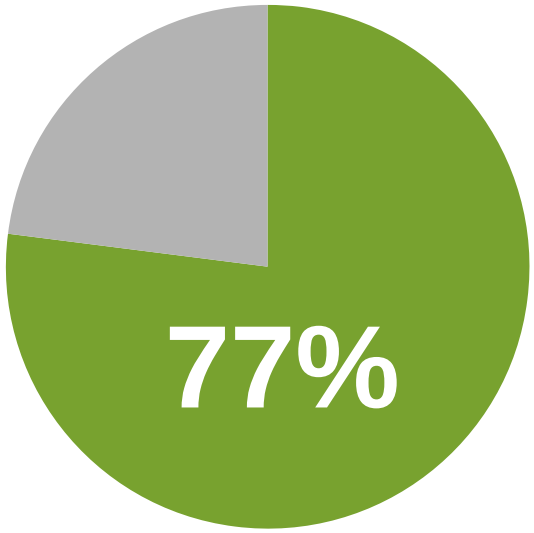
What percentage of workers do not have a retirement income plan?

Source: Fidelity Investments® Higher Education Faculty Study, 2013. Conducted by Versta Research, an independent firm, The survey population is a national sample of 221 benefits-eligible faculty who work at colleges or universities (public and private) in the United States." Link to survey

What percentage of workers do not have a retirement income plan?



Percentage of workers 55 and older who do not have a retirement income plan

Source: Fidelity Investments® Higher Education Faculty Study, 2013. Conducted by Versta Research, an independent firm, The survey population is a national sample of 221 benefits-eligible faculty who work at colleges or universities (public and private) in the United States." Link to survey

Know when to build your retirement income plan.

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If you plan to retire at 65:

50s Quick plan

- Make good plans
- “Super save”
- Set up an initial planning session with us

60s Detailed plan

- Determine Social Security strategies
- Reassess risk and asset allocation
- Build a detailed financial assessment

65+ Master plan

- Begin Medicare eligibility
- Make final work-life balance decisions
- Prepare your portfolio for required minimum distributions and tax strategies

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What are the 4 steps to creating your retirement income plan?

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Retirement income planning process

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Once you have a good idea of what you want to do in retirement, follow these steps to build your plan:

STEP 1

Inventory expenses vs. income

STEP 2

Cover essential expenses

STEP 3

Fund discretionary expenses

STEP 4

Meet with us and review your plan regularly

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STEP 1

Inventory expenses vs. income.

Imagining tomorrow.

- **Categorize expenses—essential vs. discretionary**
- **Identify expenses that may increase or decrease**
- **Consider your personal situation:**
  - Family needs
  - Living arrangements as you age
  - Debts
  - Long-term-care coverage
  - Cost of retirement “fun”

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Use tools to get organized.

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Choose an option that you will actually use.

"Back of the Envelope"	Budget Worksheet	Online Tool
Gives you a rough idea of your situation	Helps you prepare to meet with your consultant	Integrates expense information with overall plan

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STEP 2

Cover essential expenses.

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Identify sources of lifetime income…

- Social Security
- Pension plans
- Fixed income annuities*

…and use assets to make up any gap and solve for health care expenses.

- Regular withdrawals from reliable asset sources
- Consider long-term-care and life insurance

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

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Make the most of Social Security.

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When you start taking distributions may significantly impact your retirement income.

Age 62	Full Retirement Age	Age 70
Lower monthly benefit—as much as 30% less	Calculated full benefit based on your earnings history	Maximum benefit amount—as much as 32% more

Source: ssa.gov.

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STEP 3

Fund discretionary expenses.

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Use your remaining portfolio assets…

- Mutual funds
- Brokerage accounts
- IRAs, 403(b)s, 401(k)s
- Savings accounts
- Guaranteed income products

…to pay your discretionary expenses.

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

For illustrative purposes only.

Diversification does not ensure a profit or guarantee against loss.

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Be careful to monitor your withdrawal rate.

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Discretionary expenses, by definition, need to be flexible.

Sustainable Withdrawal Rate	Special Occasions	Emergencies
Generally between 4% and 5%, based on your age	One-time events that you've been planning for	Because you never know…

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STEP 4

Monitor your plan each year.

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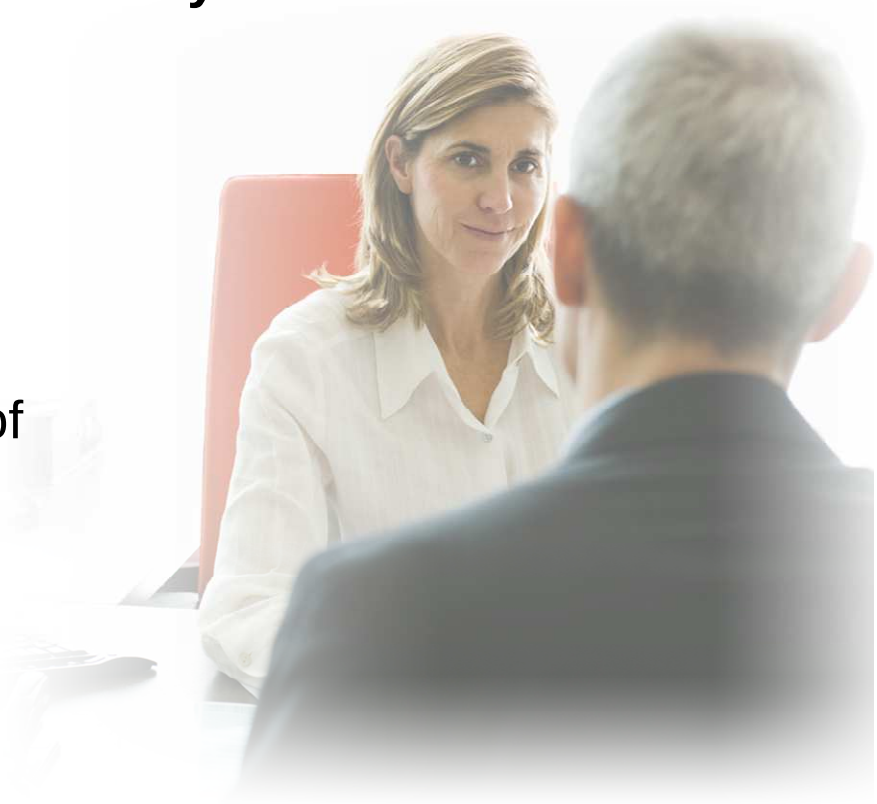
Meet with Fidelity at least once a year to:

- Discusses changes in your situation
- Review retirement income goals
- Determine availability of new income sources
- Reassess expenses
- Rebalance portfolio in light of risks
- Update beneficiary designations



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Count on Fidelity to ask questions you might not have considered.

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What if…	When this…	How do I…
We'll ask you how you are thinking about retirement topics	We'll have open discussions about changes to your personal and financial situation	We'll be there to help you navigate the challenges of living in retirement

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Summary

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1 Define your retirement.

- What will you do with your time?
- How will you set up this new chapter?

2 Understand the 5 key risks.

- Longevity
- Health Care
- Inflation
- Asset Allocation
- Withdrawal Rate

3 Build a custom retirement income plan.

- Use the 4-step process
- Consider your entire household

4 Ask questions.

- Planning for retirement is not a “do-it-yourself” project
- Fidelity is here to help

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Let's see how all the pieces fit together.

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We'll work together to create your custom retirement income plan.

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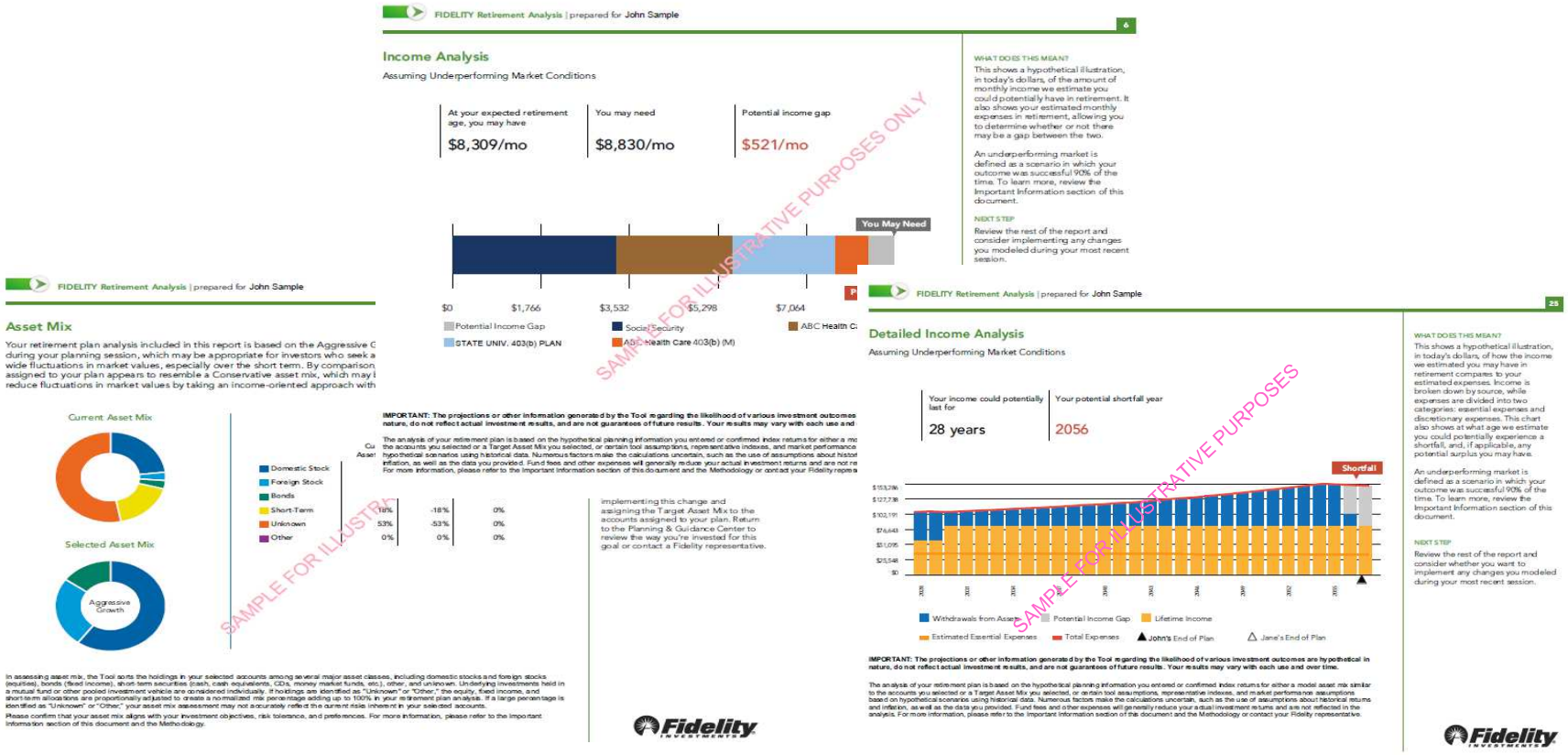

IMPORTANT: The projections or other information generated by the Fidelity Income Strategy Evaluator ("the Tool") regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Results may vary with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

Guidance provided by Fidelity through Fidelity Income Strategy Evaluator is educational in nature, is not individualized, and is not intended to serve as the primary basis for your investment or tax-planning decisions.

Sample output pages from the Fidelity Retirement Income Evaluator. For illustration purposes only.

You’ve got a good place to start.

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Creating Retirement Income to Last

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Strategies to help ensure your assets last a lifetime

In this brochure, you'll find:

- ✓ An overview of the five key risks
- ✓ How to maximize income sources
- ✓ Your action plan
- ✓ Fidelity contact information

Your Workbook Checklist

☐ Before you begin, collect and organize the following personal financial information:

- List of other investments held outside Fidelity that you plan to use to fund your retirement
- Statements for other sources of income (e.g., annuity income, rental income)
- Actual or estimated Social Security payments in retirement
- Actual or estimated pension payments in retirement
- Bank statements
- List of monthly bills and other anticipated expenses

☐ Please use a black pen and print clearly in CAPITAL LETTERS.

☐ Information that is required to create your plan is noted by an asterisk (*).

☐ Estimate your anticipated expenses for retirement in Section 2. The Household Budget Worksheet in the Appendix is **optional** but can help to determine your anticipated expenses in retirement (Section 2) in detail.

Take advantage of this workbook by completing and returning all pages including Sections 1 through 4.

Need assistance?

Call us at **866-786-6813** if you need help completing your workbook.

Note: Any information that may have been previously entered into Fidelity online tools, such as Retirement Income Planner, will be replaced with the information from this workbook.

Evaluation We'd like to hear from you.

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Strategies to help ensure your assets last a lifetime

Your feedback is important. Let us know how we can improve this seminar to better meet your needs.

1. What is your overall evaluation of this seminar? ☐ Excellent ☐ Very Good ☐ Neutral ☐ Fair ☐ Poor
2. What is your overall rating of the presenter(s)?
   - Name_____ ☐ Excellent ☐ Very Good ☐ Neutral ☐ Fair ☐ Poor
   - Name_____ ☐ Excellent ☐ Very Good ☐ Neutral ☐ Fair ☐ Poor
   - Name_____ ☐ Excellent ☐ Very Good ☐ Neutral ☐ Fair ☐ Poor
3. Will you follow up with a free guidance appointment? ☐ Yes ☐ No
4. Any comments you would like to share?_____

Fidelity Workplace Planning and Guidance Consultants Can Help

If you would like to have someone follow up with you, please complete the information below.

Name _____ Preferred Phone # _____ ☐ day ☐ eve. ☐ cell

Address _____ City _____ State _____ ZIP _____

Employer _____

Tell us about you	I have multiple planning goals
How many years until you plan to retire? ☐ Less than 1 year ☐ 1 to 5 years ☐ 6 to 10 years ☐ More than 10 years ☐ I am retired	**I would like to discuss the following:** ☐ Retirement Planning ☐ Estate Planning Strategies ☐ Charitable Giving Strategies ☐ Investment Management ☐ Fixed Income Products

UNIVERSITY OF CALIFORNIA Retirement Savings Program

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Make an appointment today.

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Retirement Planners

Our service is free and offered as an employee benefit to you.

Make an appointment today to meet in person

Or meet over the phone:
877-895-5986

Empower yourself and build confidence to make the best decisions for your retirement.

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Important Information

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Diversification does not ensure a profit or guarantee against loss.

U.S. stock prices are more volatile than those of other securities. Government bonds and corporate bonds have more moderate short-term price fluctuations than stocks but provide lower potential long-term returns. U.S. Treasury bills maintain a stable value (if held to maturity), but returns are only slightly above the inflation rate.

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

The Ibbotson U.S. 30-Day T-bill data series is a total return series that is calculated using data from the *Wall Street Journal* from 1977 to present, and the CRSP U.S. Government Bond File from 1926 to 1976.

The Ibbotson Intermediate-term Government Bond Index data series is a total return series that is calculated using data from the *Wall Street Journal* from 1987 to present, and from the CRSP Government Bond file from 1934 to 1986. From 1926 to 1933, data was obtained from Thomas S. Coleman, Lawrence Fisher, and Roger G. Ibbotson's Historical U.S. Treasury Yield Curves: 1926–1992 with 1994 update (Ibbotson Associates, Chicago, 1994).

The S&P 500® Index is an unmanaged index of the common stock prices of 500 widely held U.S. stocks and includes reinvestment of dividends. It is not possible to invest directly in the index.

S&P 500 is a registered service mark of Standard & Poor's Financial Services LLC.

The Consumer Price Index is a widely recognized measure of inflation calculated by the U.S. government that tracks changes in the prices paid by consumers for finished goods and services.

Past performance does not ensure a profit or guarantee against loss.

All index returns include reinvestment of dividends and interest income. It is not possible to invest directly in any of the indexes described above. Investors may be charged fees when investing in an actual portfolio of securities, which are not reflected in illustrations utilizing returns of market indexes.

The information is for educational purposes only.

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Methodology and Information

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Guidance provided by Fidelity is educational in nature, is not individualized, and is not intended to serve as the primary or sole basis for your investment or tax-planning decisions.

The retirement planning information contained herein is general in nature and should not be considered legal or tax advice. Fidelity does not provide legal or tax advice. This information is provided for general educational purposes only and you should bear in mind that laws of a particular state and your particular situation may affect this information. You should consult your attorney or tax advisor regarding your specific legal or tax situation.

Principal value and investment returns of a variable annuity will fluctuate and you may have a gain or loss when money is received or withdrawn.