SHAREHOLDER GUIDE

INCOME TO LAST THROUGH RETIREMENT

IT'S NOT OUT OF REACH.

HANDLING THE KEY RISKS TO A FINANCIALLY SECURE RETIREMENT

THE VALUE OF AN ADVISOR. THE STRENGTH OF FIDELITY.

Whether you're in, nearing, or decades away from retirement, **you face an increasingly complex challenge** – planning for income to last throughout your lifetime.

You're not alone. More than 35 million Americans are over age 65 right now.[1] The first wave of baby boomers has just begun to hit the shores of retirement, and right behind them are millions more. Their Number 1 concern is the possibility of outliving their income.[2]

NOT FDIC INSURED – MAY LOSE VALUE
NO BANK GUARANTEE

THE ECONOMIC AND DEMOGRAPHIC PICTURE

There's good reason for concern: planning retirement income may seem more difficult than ever before.

Retirement income increasingly depends on personal savings and investment – which may need to account for almost 60% of one's retirement income.[3]

Asset management for many people is staggeringly complex, and investors' confidence in their ability to make good decisions is flagging.

Lifespan is increasing. Spending 30 to 40 years in retirement is a realistic possibility.[4]

Compounding the difficulty in the immediate environment is the fact that many people have seen the value of their retirement savings plans erode during recent years.

Social Security currently provides only 19% OF RETIREMENT INCOME for households with incomes of $40,000 or more per year.[3]

ONLY 25% OF FAMILIES nowadays include a member covered by a traditonal pension plan.[5]

THE FINANCIAL PLANNING REALITY

There are positive factors at work today as well – financial planning factors that can be pivotal in laying out a new approach to retirement income planning.

An array of tax-deferred retirement savings vehicles, like IRAs, 403(b)s, 401(k)s, and other defined contribution plans

Recent IRS regulations that enhance the efficacy of these plans in building personal assets: increased contribution limits, greater rollover flexibility, and more advantageous distribution options

New investment products that make it easier to assemble a diversified portfolio to mitigate market risk: mutual funds in a greater variety of specialized asset areas, plus automatic asset allocation funds

A well-established and growing number of knowledgeable and experienced **financial advisors**

The real challenge lies in how to utilize today's financial planning tools to meet your need for adequate retirement income.

YOU NEED A PLAN

PUTTING TOGETHER AN INCOME PLANNING STRATEGY IS NOT SOMETHING THAT CAN BE DONE PIECEMEAL.

It takes all of the financial planning elements – working together – to build a realistic plan.

Given the intricacy of coordinating these elements, it's no surprise that more and more individuals are turning to an advisor for assistance.

So, start with your advisor, and develop a composite picture of your envisioned post-career lifestyle, estimated essential and discretionary expenses, and inventory of potential financial resources.

Before you can transform this picture into a practical road map to financial security, however, you need to understand – and integrate into your plan – five factors that may put at critical risk your success in reaching your retirement income goals:

LONGEVITY

INFLATION

INVESTMENT ASSET ALLOCATION

EXCESS WITHDRAWAL

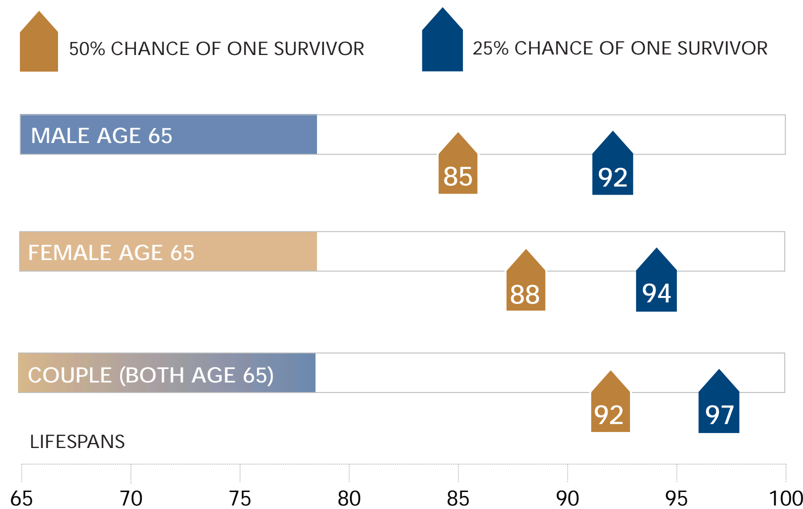
HEALTH CARE EXPENSES

LONGEVITY

A successful retirement income plan helps you ensure that your assets will last through your lifetime. That, of course, is predicated on estimating how long you are going to live. Based on actuarial tables, half the population will outlive their life expectancy. This means they will underestimate the number of years they will be living in retirement – a miscalculation that increases the likelihood that they will run out of savings.

A more realistic approach is to plan for longevity. As illustrated in the accompanying graph, a 65-year-old American man in good health has a 50% chance of living to 85 and a 25% chance of living to 92. For a 65-year-old woman, there's a 50% chance of living to 88 and a 25% chance of living to 94. Based on these findings, you'll want to consider planning for income into your 90s – which for many people means 30+ years of post-retirement income.

RETIREES NEED TO PLAN FOR POSSIBLE LONGER LIFE EXPECTANCIES



Source: Annuity 2000 Mortality Table: Society of Actuaries. Figures assume a person is in good health.

LONGEVITY

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HEALTH CARE EXPENSES

CHALLENGE:
Many people underestimate their lifespan and therefore risk outliving their assets.

WHAT YOU CAN DO:
When setting up your lifetime income plan, account for the possibility that you'll live longer than you think.

INFLATION

Inflation is the long-term tendency of money to lose purchasing power. It impacts retirement income planning in two ways:

- Increases the future cost of goods and services
- Potentially erodes the value of assets set aside to meet those costs

For example, during the course of the 20th century, inflation eroded purchasing power by about 95% – reducing a 1900 dollar to a 2000 nickel.[6] Or in more recent terms, a gallon of milk costing 65 cents in 1970 costs $3 today.

CHALLENGE:

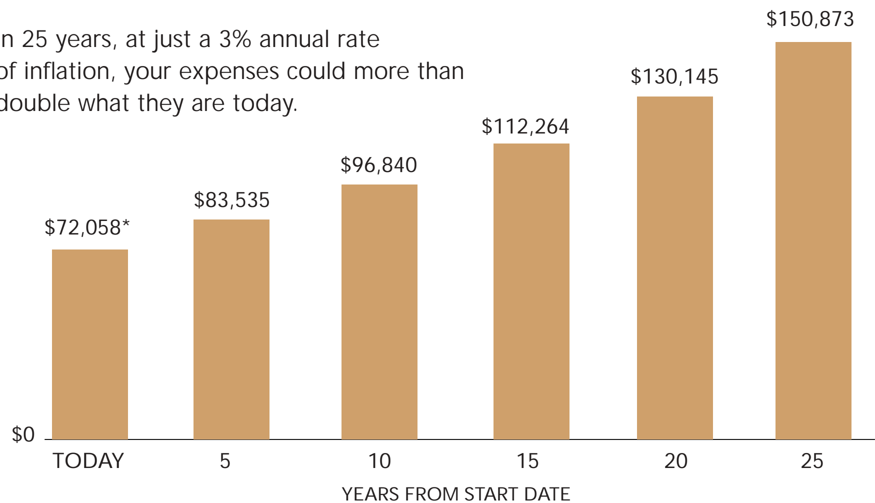
Inflation increases future costs of goods and services and erodes the value of assets set aside to meet those costs.

WHAT YOU CAN DO:

Include investments with the potential to outpace inflation in your long-term portfolio and investment plan.

LONGEVITY
INFLATION
INVESTMENT ASSET ALLOCATION
EXCESS WITHDRAWAL
HEALTH CARE EXPENSES

EVEN LOW INFLATION CAN DAMAGE PURCHASING POWER



Source: U.S. Department of Labor, Bureau of Labor Statistics, Consumer Expenditures 2000 report.

* $72,058 was the annual expenditure for individuals age 65+ with income greater than $70,000. All other numbers were calculated based on a hypothetical 3% rate of inflation (historical average from 1926 through March 2003 was 3.06%) to show the effects of inflation over time; actual inflation rates may be higher or lower.

As the chart shows, even a relatively low inflation rate of 3% can have enormous impact on a retiree's purchasing power. For instance, a retiree with $72,000 of living expenses in 2003 would find they need more than twice as much – over $150,000 – to meet those same expenses in just 25 years. If inflation were to accelerate to 5%, that figure would soar to $243,817 – more than three times the retiree's initial annual expense budget.

The strong likelihood of continuing inflation makes it imperative that your personal retirement savings include investments with the potential to beat inflation – especially considering the longer retirement that today's retirees can anticipate.

INVESTMENT ASSET ALLOCATION

Market risk comes with investing. Although we can't control market behavior, we may be able to better manage the long-term effects of market behavior through our investment choices. One option is portfolio asset allocation, i.e., striking a balance between stocks and bonds – equity and debt securities.

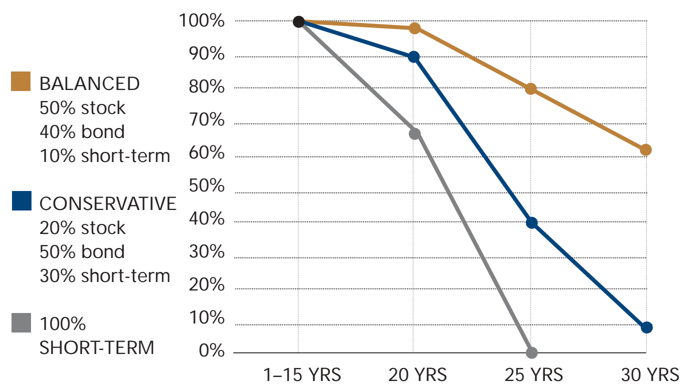
A significant imbalance in either direction may impose a risk. Too aggressive a portfolio can increase your vulnerability to market volatility. Too conservative a portfolio may not outpace inflation, thereby increasing the risk of outliving your assets.

The chart below takes three different pools of assets and plots how many years each of them may last before being exhausted.

Balanced: 50% stocks, 40% bonds, 10% short-term investments
Conservative: 20% stocks, 50% bonds, 30% short-term
Ultra-conservative: 0% stocks, 0% bonds, 100% short-term

LONGER PLANNING HORIZONS REQUIRE GREATER EXPOSURE TO EQUITIES

HISTORICAL LIKELIHOOD (%) ASSETS MAY LAST FOR EACH PERIOD



Source: Fidelity Investments.

Hypothetical value of assets held in an untaxed portfolio of stocks, bonds, and short-term investments with inflation-adjusted withdrawals of 5%. Historical monthly data from 1926 through 2002 is from Ibbotson Associates; stocks, bonds, and cash are represented by S&P 500,® U.S. intermediate government bonds, and U.S. 30-day T-bills. Average 3% inflation rate assumed (historical average from 1926 through March 2003 was 3.06%). Actual inflation rates may be more or less. This chart is for illustrative purposes only and is not indicative of any investment. Past performance is no guarantee of future results.

STOCK ALLOCATIONS OF LESS THAN 50% HAVE HISTORICALLY LED TO LOWER SUCCESS.

Can asset allocation make a difference in how long your savings will last? You bet.

At an annual inflation-adjusted 5% withdrawal rate, all three portfolios delivered reliable income flows for the first 15 years. From that point on, the risk of exhausting the assets rises significantly, so that by the 25th year, the probability of completely running out of money is 100% for the ultra-conservative portfolio and 60% for the conservative portfolio. But the balanced portfolio shows an 80% chance of continuing to deliver income after the 25-year mark.

These findings suggest that a balanced portfolio weighted toward stocks may offer the better likelihood of providing income throughout your retirement.

LONGEVITY
INFLATION
INVESTMENT ASSET ALLOCATION
EXCESS WITHDRAWAL
HEALTH CARE EXPENSES

CHALLENGE:

Retirees with a portfolio overly concentrated in conservative investments expose themselves to a greater risk of outliving their assets.

WHAT YOU CAN DO:

Even in retirement, the key to long-lasting income may depend on a balanced asset allocation that includes a significant portion of stocks.

LONGEVITY

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CHALLENGE:

Withdrawal rates much above 4% begin to increase the likelihood that you will deplete your assets prematurely.

WHAT YOU CAN DO:

Use as conservative a withdrawal rate as possible, particularly in your early years of retirement.

EXCESS WITHDRAWAL

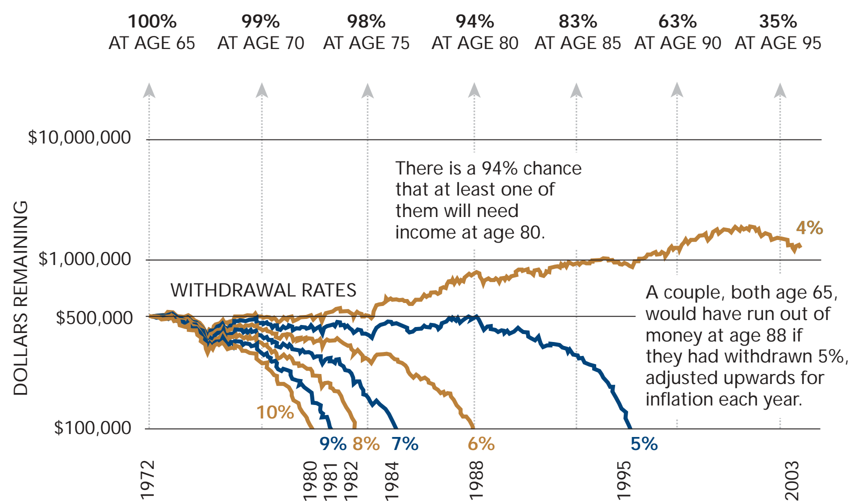
Even the savviest asset allocation strategy can misfire, however, without an equally wise strategy for withdrawing your assets. The withdrawal rate you decide on can dramatically shorten or lengthen the productive life of your assets. This is a variable that's largely in your control.

Until recently, many people were misled into overly optimistic withdrawal rates of 7%, 8%, or even more per year, believing they could count on rising stock prices to keep the total value of their investments unchanged – or even growing. The bear market of 2001–2002 exposed that fallacy.

Let's see how different withdrawal rates may affect the life of a pool of assets. The following chart takes a balanced portfolio of $500,000 and tracks it over the period from 1972 to 2003 using a range of inflation-adjusted withdrawal rates.

PRUDENT WITHDRAWAL RATES CAN EXTEND THE LIFE OF A PORTFOLIO

HYPOTHETICAL COUPLE (BOTH AGE 65)* RETIRING IN 1972 WITH $500,000



Source: Fidelity Investments; data based on Annuity 2000 Mortality Table from Society of Actuaries.
Hypothetical value of assets held in an untaxed account of $500,000 invested in a portfolio of 50% stocks, 40% bonds, and 10% short-term investments with inflation-adjusted withdrawal rates as specified.
This hypothetical illustration uses historical monthly performance from January 1972 through January 2003 from Ibbotson Associates: stocks, bonds, and cash are represented by S&P 500, U.S. intermediate government bonds, and U.S. 30-day T-bills. This chart is for illustrative purposes only and is not indicative of any investment. Past performance is no guarantee of future results.

* Probability of a couple surviving to various ages based on Annuity 2000 Mortality Table from Society of Actuaries. Figures assume a person is in good health.

As you can see, a 4% withdrawal rate – $20,000 in the first year and then adjusted each year for actual historical inflation – is the only one of the scenarios that would have sustained the asset pool and kept it producing income throughout the couple's projected lifetime. All the other withdrawal rates would have exhausted the asset pool well within the time at least one member of our hypothetical couple would still be living. At the 4% rate, this portfolio would easily be able to pay out more than $50,000 in 2002 – when there is still a 35% chance that one of the couple would be alive and need the income.

It's worth taking a long, serious look at this chart also for what it illustrates about the interdependency of the factors previously covered: longevity, inflation, and market volatility.

HEALTH CARE EXPENSES

Longer life spans, rising medical costs, declining retiree medical coverage by private employers, and possible shortfalls ahead for Medicare and Medicaid all add up to make health care expenses a critical challenge for retirees and pre-retirees alike.

As shown in the table, a couple who retired in 2002 at age 65 could need current savings of $160,000 to supplement Medicare and cover their out-of-pocket health care expenses in retirement. A couple retiring at age 60 would need to plan on about $210,000 over the course of their retirement.

These estimates don't include possible long-term care, which can range from $33,000 in Louisiana to over $91,000 in Connecticut for one year of care. Roughly 50% of Americans now turning 65 will be admitted to a nursing home at some point in their lives. Half of them will stay six months or less, but about 1 in 10 will stay three years or more.[4]

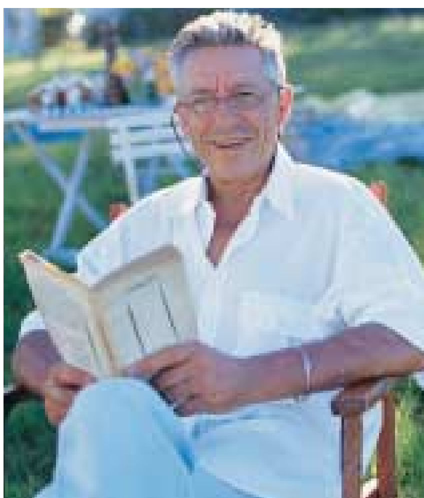
SAVING FOR RETIREE HEALTH CARE COSTS

Savings needed to supplement Medicare

Age at Retirement	TOTAL SAVINGS REQUIRED	ANNUAL SAVINGS REQUIRED STARTING AT AGE 35	ANNUAL SAVINGS REQUIRED STARTING AT AGE 45
55	$260,000	$5,260	$16,620
60	$210,000	$2,660	$7,160
65	$160,000	$1,310	$3,240

Source: Fidelity Workplace Services; September 2002 Health and Welfare Report.

People in or close to retirement need to think carefully about long-term care insurance. This insurance is costly at any age, but it is significantly less expensive the earlier in life that the policy is purchased.



CHALLENGE:

Rising health care costs coupled with inadequate health care coverage can have a devastating impact on your lifetime income plan.

WHAT YOU CAN DO:

Maximize savings specifically intended to meet health care expenses and consider buying long-term care insurance.

STEPS TO A WORKABLE RETIREMENT INCOME PLAN

With the help of your advisor, develop a formal, written plan for building up retirement assets and drawing down retirement income.

If you already have a plan, bring it out, rethink it, and revise it as needed to incorporate your understanding of the risk factors discussed here.

ENVISION the retirement lifestyle you want.

IDENTIFY your retirement expenses, and analyze which are essential and which are discretionary.

REVIEW the income, accounts, and other assets available to fund your retirement.

COMPARE expenses to income. Earmark known or predictable assets to cover essential expenses, and assign less-predictable assets to fund discretionary expenses.

ALLOCATE your investment portfolio appropriately for your timeframe, your willingness to take risk, and your overall financial situation.

MAKE SURE that your portfolio is set up to help minimize any foreseeable or likely risks.

MONITOR your plan regularly – at least annually – with your advisor. An out-of-date or unrealistic plan is of no practical use in helping you achieve income to last through your lifetime.

YOUR ADVISOR AND FIDELITY ARE HERE TO HELP

Like a good road map, a well-thought-out retirement income strategy may provide peace of mind and the confidence of knowing you are heading in the right direction.

Your advisor is in a unique position to provide his or her financial planning expertise to help you with your personal income planning needs. Fidelity's reliable support – with a broad array of mutual funds and years of investment management experience through all market conditions – complements your advisor's know-how to help you achieve your goals.

START PLANNING NOW

first step

AS A FIRST STEP, CALL YOUR ADVISOR TO SCHEDULE A CONSULTATION.

Talk to your financial advisor about retirement income planning.

Please consider the funds' investment objectives, risks, charges, and expenses before investing. For this and other information, call your investment professional or visit advisor.fidelity.com for a free prospectus. Read it carefully before you invest or send money.

1. U.S. Bureau of the Census. Bureau of the Census and NP D1-A projections for 2010–2050 issued January 13, 2000.
2. Securities Industry Association, Annual SIA Investor Survey: "Investors' Attitudes toward the Securities Industry," 2002.
3. Farrell Dolan and Van Harlow, "Lifetime Income Planning," FMR Corp., August 2003.
4. Social Security Administration, Office of Policy, Income of the Aged Chartbook, 2001.
5. Alicia Munnell and Annika Sundén, *Coming Up Short: The Challenge of 401(k) Plans*, January 2004.
6. Elroy Dimson, Paul March, and Mike Staunton, *Triumph of the Optimists: 101 Years of Global Investment Return*, 2002.

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