

## AMERICA IS FACING A RETIREMENT INCOME CHALLENGE

Declines in pension coverage, rapidly rising health care costs, and life-spans that extend 30+ years after retirement have turned retirement income planning into a financial minefield for many individuals. Your expertise presents a great opportunity to capture new clients and assets.

Only one in five investors has a formal plan for managing income, assets, and expenses during retirement – and some of these plans are based on incorrect assumptions.<sup>1</sup>

The challenge calls for a radical change of approach to income planning and to the way people manage their assets during retirement. It requires a strategy that encompasses all income resources, demands on those resources, and consideration of the five major risks.

### The five major risks

**1. Longevity.** The fact is that half the population will outlive their life expectancy. Even someone 80 or 85 still has a pretty high probability of living 10 or 15 more years.<sup>2</sup> Your clients should generally assume they will live longer than they think.

**2. Inflation.** During the 1990s inflation rose more than 30%.<sup>3</sup> At that rate living expenses could double in 25 years.<sup>4</sup> Your clients need investments with the potential to beat inflation. That generally means a portion of their portfolio in equities even after they've retired.

**3. Asset allocation.** Aggressive investing is designed for the early saving years, when time can absorb the shocks of market volatility. During retirement, when they need to cover current expenses with current returns, your clients should have a more conservative allocation. But too conservative is just as bad as too aggressive.

**4. Withdrawal rate.** Changing the percentage at which assets are withdrawn can dramatically affect how long those assets will last. The chart

shows the impact of different inflation-adjusted withdrawal rates on a \$500,000 portfolio of 50% stocks, 40% bonds, and 10% short-term investments from 1972 to 2002. It's easy to see why realistic assumptions about inflation and your clients' longevity are critical when calculating withdrawals.

Your clients also need to know the potential advantages of drawing from taxable assets before dipping into any tax-sheltered assets.

**5. Health care.** Health care expenses are currently climbing faster than inflation – 8.7% in 2001.<sup>5</sup> Many experts now believe that health insurance is a core element of retirement security along with Social Security,

pensions, and personal savings. It should be considered very carefully by your clients.

As the nation's retirement leader, Fidelity believes that every retiree and pre-retiree should have a lifetime income plan that seeks to ensure that they do not outlive their assets.

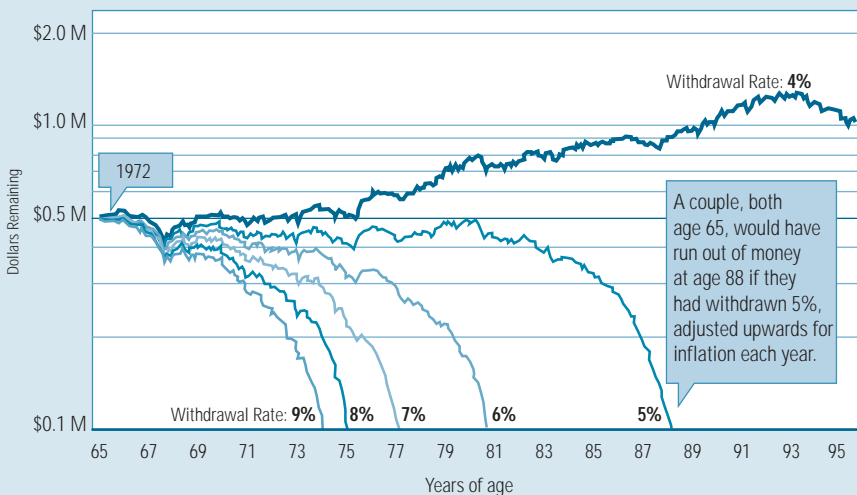
**To learn more** on America's retirement income challenge, call your Fidelity representative today to request a copy of our white paper, *Lifetime Income Planning*. It describes the challenges and discusses the changes in financial thinking that retirees must make as they transition from full-time work and wealth accumulation to retirement and possible wealth drawdown. The paper, written by Farrell Dolan, CFP, Fidelity Retirement Income Services, and Van Harlow, CFA, Fidelity Management & Research Company, discusses specific trade-offs and possible solutions to help achieve a secure retirement.

### PROBABILITY OF A COUPLE SURVIVING TO VARIOUS AGES (Both Age 65)

Based on Annuity 2000 Mortality Table from Society of Actuaries. Figures assume a person is in good health.

Surviving...	99%	98%	94%	83%	63%	35%
to age 70						
to age 75						
to age 80						
to age 85						
to age 90						
to age 95						

Withdrawal rate effects on a \$500,000 portfolio for a 65-year-old couple who retired in 1972



Source: Fidelity Investments. 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. Investors may be charged fees when investing in an actual portfolio of securities, which are not reflected in illustrations utilizing returns or market segments. This chart's 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.

1. A 2003 study by LIMRA International, Inc.

2. Society of Actuaries, Annuity 2000 Mortality Table

3. Consumer Price Index

4. U.S. Dept. of Labor, Bureau of Labor Statistics, Consumer Expenditures 2000 report

5. U.S. Government Annual Report on Health Spending

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