

# Value analysis of decumulation options for DC

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# Guaranteed<sup>1</sup> Income Options for DC



Option	Advantages	Disadvantages
<p>Out-of-Plan Annuity Buying Service</p>	<ul style="list-style-type: none"> <li>• Not a plan fiduciary oversight item</li> <li>• No cost to plan sponsor</li> <li>• Multi-vendor, multi product offering</li> <li>• Integrated into Retirement Planning tools</li> <li>• Support for participants in selecting annuity provider as well as features &amp; options</li> <li>• May provide higher cash flow than other non-annuitized options</li> <li>• May be attractive to retiring/retired participants</li> </ul>	<ul style="list-style-type: none"> <li>• Separate from accumulation phase</li> <li>• Point-in-time rate risk for fixed income annuities</li> <li>• Participant decision may require commitment of significant portion of assets</li> </ul>
<p>Annuity as a distribution option</p>	<ul style="list-style-type: none"> <li>• May provide institutional and gender neutral pricing</li> <li>• DOL guidance from PPA</li> </ul>	<ul style="list-style-type: none"> <li>• Selection is fiduciary responsibility of sponsor</li> <li>• Long term risk associated with insurance providers</li> <li>• Very little to no participant usage where in place today</li> <li>• QJSA must be supported</li> </ul>
<p>“New” In-Plan Annuity Products</p>	<ul style="list-style-type: none"> <li>• Can be used to accumulate future income units, create “income” mindset</li> <li>• Dollar cost averaging<sup>2</sup> reduces point-in-time interest rate risk</li> <li>• May be attractive to older participants</li> </ul>	<ul style="list-style-type: none"> <li>• Selection is fiduciary responsibility of sponsor</li> <li>• Long term risk associated with insurance providers</li> <li>• Recordkeeping challenges</li> <li>• Not all products allow free liquidity to exchange out</li> <li>• Portability issues</li> <li>• Lack of integration with participant tools and guidance programs</li> </ul>

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

2 Periodic investing and diversification do not ensure a profit or protect against a loss in a declining market.

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# DC Income Generation Product Summary<sup>1</sup>



Product Type	Description	Income	Manufacturer
Out-of-Plan Rollover Annuity Platforms <i>Supermarket Approach</i>	<ul style="list-style-type: none"> <li>Maximize income at point of distribution</li> <li>Choice of insurers</li> <li>Options include fixed or variable annuities</li> </ul>	<ul style="list-style-type: none"> <li>Annuitization</li> <li>Maximizes initial income (no upside potential for fixed annuity)</li> </ul>	<ul style="list-style-type: none"> <li>Fidelity (platform)</li> <li>Hueller (platform)</li> </ul>
Out-of-Plan Rollover Non-Guaranteed Options <i>Managed Payout</i>	<ul style="list-style-type: none"> <li>Provides a drawdown strategy at a designated percentage</li> </ul>	<ul style="list-style-type: none"> <li>No guarantees of principal or income streams generated</li> </ul>	<ul style="list-style-type: none"> <li>Fidelity Income Replacement Funds</li> <li>Russell Target Distribution Funds</li> <li>Vanguard Managed Payout Funds</li> </ul>
Out-of-Plan Rollover Guaranteed Minimum Withdrawal Benefit (GMWB) <i>Institutional Offering</i>	<ul style="list-style-type: none"> <li>Guarantees stable lifetime withdrawals from income base, with upside potential</li> <li>Participant retains control of account balance</li> <li>Market value determines account balance for liquidations and beneficiaries</li> </ul>	<ul style="list-style-type: none"> <li>Income generated is initiated from income base</li> <li>Investment paradigm (flexibility, upside)</li> <li>Transfers market and longevity risks to insurer post-retirement</li> <li>No guarantee of principal; guarantee of income</li> </ul>	<ul style="list-style-type: none"> <li>Various Insurance providers</li> </ul>
•In-Plan Deferred Fixed Annuities	<ul style="list-style-type: none"> <li>Buy units of future income during accumulation</li> <li>Purest “DB in DC”</li> </ul>	<ul style="list-style-type: none"> <li>Annuitization</li> <li>Maximizes initial income at time of investment (no upside potential, can have inflation option)</li> </ul>	<ul style="list-style-type: none"> <li>Barclays Global Investors/MetLife (Sponsor Match)</li> <li>Hartford (Lifetime Income)</li> <li>MetLife (Pension Builder)</li> </ul>
•In-Plan Guaranteed Minimum Income Benefit (GMIB)	<ul style="list-style-type: none"> <li>Buy units of minimum future income during accumulation</li> </ul>	<ul style="list-style-type: none"> <li>Upside potential before retirement</li> <li>Annuitization or withdrawal benefit</li> </ul>	<ul style="list-style-type: none"> <li>Genworth ClearCourse-GMIB with Balanced Fund)</li> </ul>
•In-Plan Guaranteed Minimum Withdrawal Benefit (GMWB)	<ul style="list-style-type: none"> <li>Guarantees stable lifetime withdrawals from income base, with upside potential</li> <li>Participant retains control of account balance</li> <li>Market value determines account balance for liquidations and beneficiaries</li> </ul>	<ul style="list-style-type: none"> <li>Income generated is initiated from income base</li> <li>Investment paradigm (flexibility, upside)</li> <li>Transfers market and longevity risks to insurer post-retirement</li> <li>No guarantee of principal; guarantee of income</li> </ul>	<ul style="list-style-type: none"> <li>Alliance Bernstein/AXA (GMWB with Target Date Funds)</li> <li>John Hancock (Guaranteed Income for Life)</li> <li>Milliman (Retirement Guarantee Network)</li> <li>Prudential (IncomeFlex)</li> </ul>

<sup>1</sup> Not all products are available on Fidelity platforms and product availability may change without notice

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# In-Plan 'Income' Annuities Value Analysis



Type	Fee Structure	Underlying Asset Management	Guarantee	Maximize Income Guarantee	Income Growth Potential Pre/Post	Flexibility After Retirement
Fixed Income Annuity	Imbedded in Guarantee pricing, includes ins + asset mng (long term ins asset/liability)	Insurer General Account (s) or Separate Account	Lifetime Annual Income Amount			
Variable Income Annuity	Explicit Ins fee 85 bps (long term ins asset/liability)	Balanced, Lifestyle and Target Maturity Fund	Lifetime Annual Income Floor Amount			
Variable Guaranteed Minimum Withdrawal Benefit (GMWB)	Explicit Ins fee 100+ bps (hedging costs increasing and volatile)	Balanced, Lifestyle and Target Maturity Funds	Lifetime Annual Withdrawal Amount <sup>1</sup>			

<sup>1</sup> If excess withdrawals are taken during distribution, the Lifetime Annual Withdrawal Amount will be reduced.

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# In-Plan 'Income' Annuities Value Analysis



Type	Minimum Annual Lifetime Income from \$100k invested at age 55 <sup>1</sup>	Required Minimum Return <sup>2</sup>	Annual Income at age 65 if portfolio returns 6.6% <sup>3</sup>	Annual Income at age 85 if portfolio returns 6.6% <sup>3</sup>	Ending Balance at 85 if portfolio returns 6.6% <sup>3</sup>	Annual Income at age 85 if portfolio returns 0% <sup>4</sup>	Ending Balance at 85 if portfolio returns 0% <sup>4</sup>
Fixed Income Annuity	\$12,042	11.7%	\$12,042	\$12,042	N/A	\$12,042	N/A
Variable Income Annuity	\$10,291 Reset annually if market increases	9.9%	\$10,347	\$12,134	N/A	\$10,291	N/A
Variable Guaranteed Minimum Withdrawal Benefit (GMWB)	\$ 5,000 Reset annually if market increases	2.3%	\$8,030	\$8,030	\$138,439	\$5,000	\$0
SWP from Balance Fund	N/A	N/A	\$7,043	\$11,098	\$224,355	\$0	\$0

1 Pricing as of May 2010. Income amounts are minimum guaranteed income for \$100,000 investment at age 55 with first income payment at age 65.

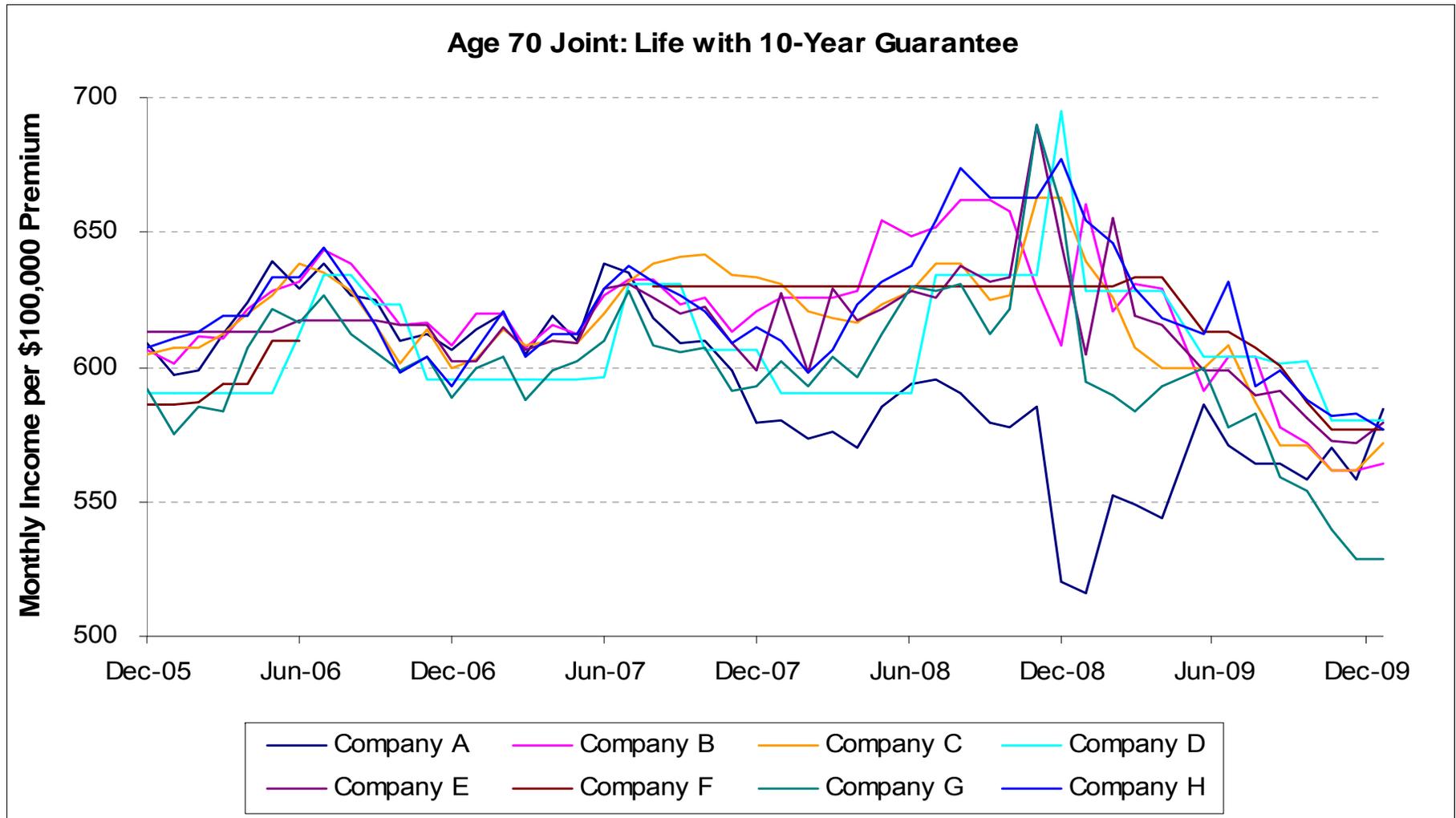
2 Returns required from age 55 to age 65 on a \$100,000 investment to have a 4% withdrawal rate provide the minimum guaranteed income amount at age 65.

3 The net portfolio returns for the Variable Income Annuity, the Variable Guaranteed Minimum Withdrawal Benefit, and SWP from Balanced Fund would be 5.0%, 4.85%, and 5.82%, respectively.

4 The net portfolio returns for the Variable Income Annuity, the Variable Guaranteed Minimum Withdrawal Benefit, and SWP from Balanced Fund would be -1.6%, -1.75%, and -.78%, respectively

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# Multiple Providers Means Competitive Rates



This chart tracks the fixed quotes of eight insurance carriers over a four year time frame. There is no one company that consistently had the highest payouts. That is why having multiple providers may be best for your employees.



**Before investing, consider the investment objectives, risks, charges and expenses of the annuity and its investment options. Call or write to Fidelity or visit [Fidelity.com](http://Fidelity.com) for a free prospectus and, if available, summary prospectus containing this information. Read it carefully.**

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