This information is intended to be educational and is not tailored to the investment needs of any specific investor.

[1]For the illustration, "Market performance during retirement will affect your sustainable withdrawal rate," Fidelity analyzed 716 completed 28-year planning horizons, the first of which began on January 1, 1926, and the last of which began on August 1, 1985, and ended on July 31, 2013. The bars show the maximum observed withdrawal rate for one period each year for a balanced portfolio of 50% stocks, 40% bonds, and 10% cash. Withdrawal rates and portfolio returns are pretax and use the historical inflation data for each horizon. Planning horizons are not independent, as they contain overlapping months. See footnote 2 for more information on asset classes and historical returns.

[2]Monthly return data for stocks (domestic and foreign), bonds, cash, and inflation used various indexes as proxies. The historical range analyzed was January 1926 to July 2013. The indexes used were as follows: stocks (domestic)—Ibbotson Associates (IA) SBBI S&P 500 Total Return (TR); stocks (foreign)—MSCI EAFE TR; bonds—IA SBBI U.S. Intermediate-Term Government TR; cash—IA SBBI U.S. 30-Day Treasury Bill TR. The stock component of each portfolio was selected to include 70% domestic and 30% foreign stock, from January 1970 to July 2013. Because MSCI EAFE data is available only from January 1970, the stock component before that time was 100% domestic equity (S&P 500 TR). Historical inflation rates were derived from the IA SBBI U.S. Inflation Index.

[3]For the illustration, "The longer your retirement, the lower your sustainable withdrawal rate," 752, 692, and 632 overlapping planning horizons were analyzed for 25-year, 30-year, and 35-year scenarios, respectively. Monthly returns data were used, starting from January 1926 and ending at July 2013. The bars show the maximum observed withdrawal rate for the three planning horizons such that the hypothetical portfolio did not run out of money in 90% of the scenarios. A balanced portfolio of 50% stocks, 40% bonds, and 10% cash was assumed for the analysis. See footnote 2 for more information on asset classes and historical returns.

[4]The chart, "More stocks may mean higher anticipated withdrawal rates, but with less certainty," was created based on simulations that relied on historical market data. These simulations take into account the volatility that a variety of asset allocations might experience under different market conditions. The illustration compares three different hypothetical portfolios—conservative, with 20% stocks, 50% bonds, and 30% cash; balanced, with 50% stocks, 40% bonds, and 10% cash; and growth, with 70% stocks, 25% bonds, and 5% cash. For each of the hypothetical portfolios, the maximum withdrawal rate was calculated such that the portfolios do not run out of money in 99%, 90%, and 50% of the hypothetical scenarios, respectively. See footnote 2 for more information on asset classes and historical returns.

Portfolios were rebalanced at the end of every month. No transaction costs were assumed for rebalancing, nor were any fees included. These costs would reduce portfolio returns. Neither asset allocation nor diversification ensures a profit or guarantees against a loss. All indexes are unmanaged. You cannot invest directly in an index. Performance returns for actual investments will generally be reduced by fees or expenses not reflected in these hypothetical calculations. Returns also will generally be reduced by taxes.

[5]Guarantees apply to certain insurance and annuity products (not including securities or variable or investment advisory products) and are subject to product terms, exclusions, and limitations, and the insurer's claims-paying ability and financial strength.

Past performance is no guarantee of future results.

Keep in mind that investing involves risk. The value of your investment will fluctuate over time, and you may gain or lose money.

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FIDELITY VIEWPOINTS®

RETIREMENT

How can I make my savings last?

Withdraw no more than 4% to 5% from savings the first year of retirement; adjust for inflation every year.

When it comes to saving for retirement, you want to make sure you enjoy your "someday." That means a strategy built for the long haul—these days, retirement often lasts 25 years or more.

That's why we came up with four key guidelines to help you create your retirement road map: a yearly savings rate, a savings factor, an income replacement rate, and a sustainable withdrawal rate. They are all interconnected, so it is important to keep each in mind on your journey to retirement, and to understand how they work together.

We'll dive into each guideline separately. Here, we focus on the potential **sustainable withdrawal rate.**

A target withdrawal rate

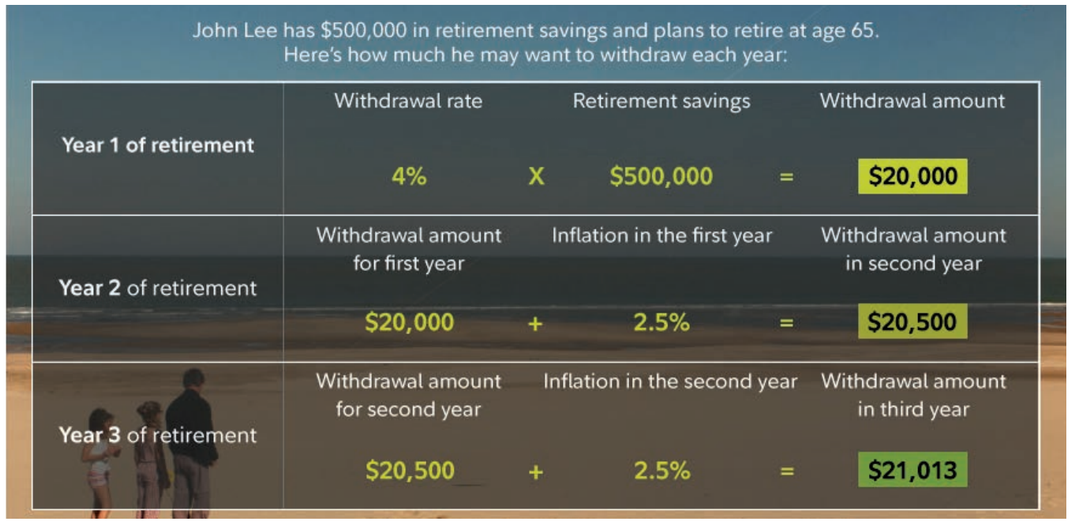
We did the math—looking at history and simulating many potential outcomes—and landed on this: Aim to withdraw no more than 4% to 5% of your savings in the first year of retirement, and then adjust the amount every year for inflation. Let's look at a hypothetical example. John Lee plans to retire at age 65 with $500,000 in retirement accounts. He decides to withdraw 4%, or $20,000, each year for expenses. That amount is his baseline for the years ahead. Each year, he increases that amount to adjust for inflation—regardless of what happens to the market and the value of his investments.

"The sustainable withdrawal rate is a useful rule of thumb for retirees looking to withdraw steady income from their retirement savings," says Adheesh Sharma, vice president of financial solutions for Strategic Advisers, Inc., a Fidelity Investments company. "However, it is important to understand how the rule works. The rate just gives you a starting point for your withdrawal amount and then has to be adjusted annually for inflation."

A look back at history

Of course, your actual sustainable withdrawal rate will vary based on many things, including some you can't control—like how long you live, inflation, and the long-term risk and return of the markets. When you retire is particularly important, as a bear market early in retirement can significantly diminish your nest egg, especially if you don't dial down your withdrawals with the declining markets. On the other hand, a strong stock market early in retirement can put the wind at your back—financially speaking—for decades.

Withdrawal math: 4% rule in action



Consider the graph below, which illustrates a historical look at how much an investor could have withdrawn from savings without running out of money over a 28-year retirement, depending on the date of retirement. As you can see, sustainable withdrawal rates varied widely,[1] from 10% if you retired in 1980, at the beginning of a roaring bull market, versus less than 4% if you retired in 1936, during the Great Depression.

Market performance during retirement will affect your sustainable withdrawal rate.

Past performance is no guarantee of future results. For illustrative purposes only. Analysis examined 716 completed 28-year planning horizons, the first of which began on January 1, 1926, and the last of which began on August 1, 1985, and ended on July 31, 2013. The bar chart shows the maximum sustainable withdrawal rate from a balanced portfolio for the 28-year periods beginning on January 1 of each year. Withdrawal rates and portfolio returns are pretax and use the historical rate of inflation. See footnote 1 for important details. Source: Morningstar EnCorr, Strategic Advisers, as of July 31, 2013.

A good starting point: the 4%–5% rule

You don't know what the future will hold for you, and past market performance is no guarantee of what will come next. Nevertheless, our historical research suggests that limiting the first withdrawal to 4%–5% is a good place to start.

We went back and looked at what would have happened with a hypothetical person's 28-year retirement, basing our calculations on the first day of each month, beginning with January 1, 1926. In 90% of those retirement periods, a balanced portfolio (50% stocks, 40% bonds, and 10% cash) with a 4% withdrawal rate would have lasted for at least 32 years, and a 5% withdrawal rate would have lasted for at least 22 years. This means that even with market ups and downs, these withdrawal amounts worked most of the time—assuming that investors stuck to this balanced investment plan. (See footnote 2 for more details on how these results were calculated.)

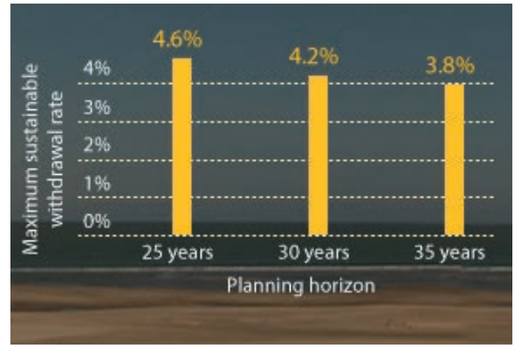
Of course, 4%–5% is just a starting point. Our research shows how things you can control—your retirement date, investment mix, savings at retirement, and spending plans—all play a role in figuring out the right number for you.

Take your timeline into account

One of the biggest factors that affect how much you can withdraw is how many years of retirement you plan to fund from your retirement savings. Say you plan on a retirement of 30 years and you invest in a balanced portfolio. Our research shows that a 4.2% withdrawal rate would have been sustainable 90% of the time.[3]

But if you work longer—say you expect to retire at age 70—or if you have health issues that compromise your life expectancy, you may want to plan on a shorter retirement period—say, 25 years. The historical analysis shows that, over a 25-year retirement period, a 4.6% withdrawal rate has worked 90% of the time.

The longer your retirement, the lower your sustainable withdrawal rate.



Past performance is no guarantee of future results. The chart shows historical maximum sustainable withdrawal rates that produced a 90% success rate over various time periods since 1926. Hypothetical scenarios assume a balanced portfolio of 50% stocks, 40% bonds, and 10% cash. Results are hypothetical and do not reflect actual investor experience. For illustrative purposes only. See footnote 3 for important details.

On the other hand, if you are retiring at age 60 or have a family history of longevity, you may want to plan for a 35-year retirement. In that case, 3.8% was the most you could withdraw for a plan that worked in 90% of the historical periods. These may sound like small differences, but they could equate to thousands of dollars in annual retirement income.

How you invest is important, too

The mix of investments you choose is another key to how much you can likely withdraw without running out of money. Portfolios with more stocks have historically provided more growth—but have also experienced bigger price swings.

Should you add more stocks to your portfolio to try to maximize the amount you can withdraw, or play it safer with a more conservative mix? It

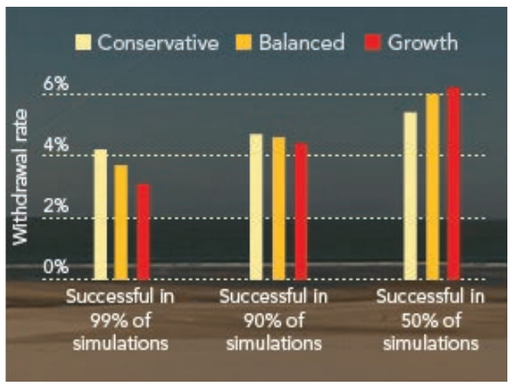
depends. We believe that you should aim to cover food, housing, and other essential expenses in retirement with guaranteed income from Social Security, pensions, and annuities. If this is your situation, you may want to then try to maximize the income that comes from your other invested savings by investing more in stocks in this part of your retirement portfolio.

Our research suggests that in about half the hypothetical scenarios we tested, a growth portfolio with 70% stocks, 25% bonds, and 5% cash would have allowed you to withdraw more than 6% each year—nearly 20% more than a conservative portfolio (20% stocks, 50% bonds, and 30% cash) for a 25-year time period. Your invested savings could be used for discretionary expenses like entertainment or gifts to charity, so if you were to begin to run out of money, the impact would not be as critical.

But what if you don't have your essential expenses covered by guaranteed sources and don't feel comfortable with a plan that works only in about half the scenarios we tested? A plan with a higher success rate can come with a cost. As the chart to the right shows, for a plan that worked more often in our hypothetical scenarios, you would need to accept a lower withdrawal rate—which means taking less money out of your savings each year.

If you feel you need high confidence that your savings will last throughout retirement—and, in particular, if you find volatility unnerving—history suggests that a high allocation to stocks may be less attractive to you than it might be to others. For a 99% chance of success over a 25-year period, you would need to reduce your withdrawals to 4.2% for a conservative portfolio, 3.6% for a balanced portfolio, and 3.1% for a growth portfolio.[4]

More stocks may mean higher anticipated withdrawal rates, but with less certainty.



Data are for illustration only. All results are hypothetical and based on simulations using historical data since 1926. Assumes a 25-year retirement period. See footnote 4 for important details.

Consider annuities

Choosing the right withdrawal rate can improve your odds of success, but it won't guarantee that you won't run out of money. Some products do offer that guarantee.[5] While investing always involves risk, some insurance products guarantee a stream of income until death, thus all but eliminating the risk of outliving that portion of your savings. Of course, there are trade-offs: Annuities restrict or even eliminate your access to your assets, and they are also subject to the claims-paying ability of their issuers. Still, this is one way to deal with the lifetime income challenge, particularly when it comes to essential expenses.

Bottom line

For many people, planning for withdrawals in retirement can be challenging. And no wonder, given the range of uncertainties, from how long you will live, to market performance, inflation, taxes, and more. Our 4%–5% sustainable withdrawal rate takes those uncertainties into account and gives you a starting point for laying out your retirement income plan.

You may find that a little planning can help give you more confidence so that even if you can't know the future, you will be more prepared for what comes your way.

Tips

- Estimate how long you think you will live based on your health and family history. You may want to be conservative, since many people underestimate their life span.
- Evaluate how much investment risk you can live with.
- Choose an appropriate mix of investments.
- Make sure your money is likely to last, by choosing a withdrawal rate you believe has a good chance of success.