Building for the future

SAVING AND INVESTING FOR RETIREMENT

Fidelity INVESTMENTS

Hello, and welcome

We think everyone deserves to be financially empowered and prepared for a long, happy future. So we hope this overview on saving and investing can be of help to you, your family, or whoever is most important in your life.

We've written it to provide some essential know-how for balancing financial priorities, investing efficiently, and creating a smart, long-term plan.

Whether you're just getting started, or you're looking to fine-tune an existing plan, we're happy to share more in-depth resources and tools for any of the topics it covers.

And of course, we're always here to talk, answer questions, or work together on a plan that's right for you.

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Balancing saving priorities

In a perfect world, everyone would diligently spend and save exactly enough to meet their day-to-day needs, and be able to retire in style.

In the real world, it's not that simple. Saving for retirement while paying the bills and managing a career and/or a family life is a balancing act—especially as you reach important milestones like getting married, buying a home, or raising children.

It's all too easy to put off saving for retirement until you've passed the next big hurdle. But the truth is, the sooner you get started, the better off you'll be; so finding the right balance between long-term retirement savings and meeting immediate needs is important.

In this chapter, we'll explore why saving enough is so important, how to set smart short- and long-term savings priorities while meeting immediate needs, and some helpful ways to stay on track.

Save smart, early, and often

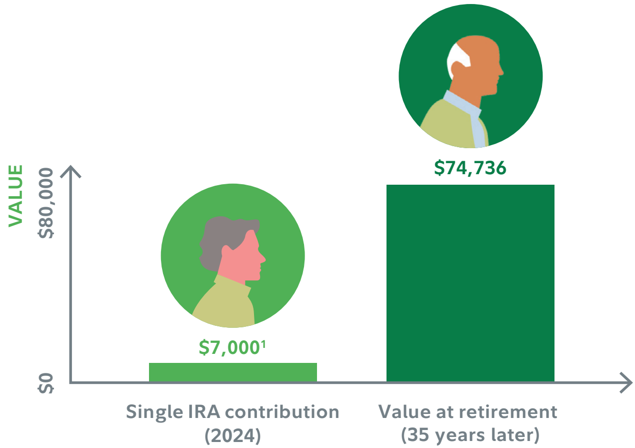
It's never too early (or too late!) to save for a secure, comfortable retirement—because the sooner you put your money to work, the longer it has to grow over time, thanks to the effects of compounding.

Simply put, compounding is the process by which the earnings on an investment are added back to the principal (or starting amount), and the combined principal and earnings continue to grow.

It may sound subtle, but the snowball effect of compounding is so dramatic that Albert Einstein is said to have called it "the most powerful force in the universe."

As you can see, when you get a head start on retirement saving, you won't be scrambling to make up for lost time in the future. Catching up is more difficult, so no matter where you are financially, the best time to start (or ramp up) your savings is now.

WITH THE EFFECTS OF COMPOUNDING, EVERY YEAR COUNTS



[1]Based on 2024 Traditional and Roth IRA contribution limits

This **hypothetical example** assumes the following: (1) one annual $7,000 IRA contribution made on January 1 of the first year, (2) an annual rate of return of 7%, and (3) no taxes on any earnings within the individual retirement account (IRA). The ending values do not reflect taxes, fees, or inflation. If they did, amounts would be lower. Earnings and deductible contributions from a Traditional IRA are subject to income taxes in the year they are withdrawn. Earnings distributed from Roth IRAs are income tax free provided certain requirements are met. IRA distributions before age 59½ may also be subject to a 10% penalty—unless one of the IRS exceptions applies. Systematic investing does not ensure a profit and does not protect against loss in a declining market. Consider your current and anticipated investment horizon when making an investment decision, as the illustration may not reflect this. The assumed rate of return used in this example is not guaranteed. Investments that have potential for a 7% annual rate of return also come with risk of loss.

Saving enough

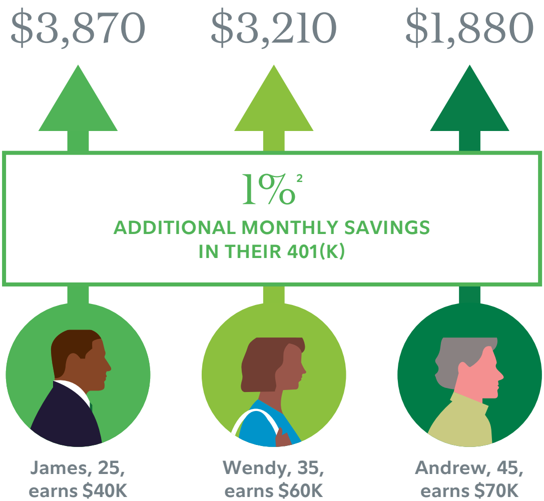
"How much do I need to save?" is the most common question we hear from people thinking about retirement.

While everyone's needs and lifestyle are unique, our research shows that putting aside 10%–15% or more of your annual pretax income each year is a good rule of thumb for building a steady, secure retirement income.

If you haven't been saving that much, don't panic. Planning for retirement is a lifelong journey—and like all journeys, it's best taken in manageable steps.

Aiming to save a little bit more of your income every year—even a 1% increase—until you reach your annual goal is a good way to get on track. Every bit counts, and that 1% more over time can have a big impact on your retirement lifestyle.

ESTIMATED ADDITIONAL INCOME EACH YEAR IN RETIREMENT



[2]**Hypothetical examples** assume that the individual begins saving an extra 1% at the specified age, which could increase along with assumed salary increases of 1.5% annually until age 67. The rate of return is 7% and consists of 4.5% real return and 2.5% inflation. These illustrations assume that the savings rate stays constant throughout the person's working career. It is assumed that upon retirement, the real (inflation-adjusted) dollar amount is withdrawn annually through age 93, and that the person takes no loans or hardship withdrawals from his or her workplace plan. All dollars shown are pretax dollars. Upon distribution, applicable federal, state, and local income taxes are due. No federal, state, or local income taxes; inflation; or account fees or expenses were considered. If they had been, returns would be lower. Yearly retirement income numbers are rounded for simplicity.

Setting healthy priorities

If you're looking to improve your financial health or habits, an up-to-date budget is a must. It's the only way to fully understand where your hard-earned money is going.

A budget can be as simple as a notebook ledger or spreadsheet detailing all your income and expenses for the month. Or, you can use a computer application to assist in building your budget and quickly get started tracking your savings and spending activity.

Once you have a detailed understanding of your monthly cash flow, you can prioritize your spending to make sure that your savings are on target. It's helpful to break down your expenses into basic categories:

Essential expenses

are "must haves" such as housing (rent or mortgage payments), groceries, utilities, and transportation. A good rule of thumb is to keep essential expenses to no more than 50% of your total expenses.

Discretionary expenses

are "nice to haves" like travel, entertainment, or dining out. These are often areas you can cut back on or be more selective about if needed.

Short- and medium-term goals

are things like a vacation, a new home, or a college fund, that require saving for, but on a limited timeline.

Retirement savings goals

may be significant and therefore may take the longest time to plan and achieve. Start as soon as you can.

While there's no one-size-fits-all approach to budgeting, Fidelity can recommend a basic hierarchy of monthly spending priorities to best keep you on target for retirement:

1. Make sure you have enough to cover your essential expenses—and when possible, find ways to reduce them.

2. Build up an emergency fund, so unforeseen events like a lost job or a natural disaster won't unravel all your hard work. An emergency fund equal to approximately three to six months worth of essential expenses is a good starting point.

3. Pay off any high-interest debt on credit cards or other accounts (where the compounding effect is working against you), and focus on those with the highest interest rates first.

4. Contribute to your retirement savings, striving for 15% or a higher percentage of your pretax income (including any company matches), or a specific goal you set with an advisor. We'll get into the details of where to invest in the next chapter.

5. If you're not reaching your savings goals, take a good, hard look at your discretionary expenses. You might be surprised by how quickly small changes in your spending habits can add up.

6. Assess your short-term goals, and decide what's truly important. Putting off that big purchase or upgrade, even by a year or two, could help super-charge your retirement savings.

Saving for college

We all want to provide the best we can for the children we love. For many parents, a college education is near the top of the list. But the truth is, neglecting your own retirement savings could put you (and your kids) at risk of financial burdens later in life.

Your children have a lifetime of earning years ahead of them, and there are lots of financial aid options—most of which don't count parents' retirement savings when assessing eligibility, so make sure you're hitting your savings target first.

If you're in good financial shape, a state-sponsored 529 investment plan may be a great option for college savings to grow tax free, if the withdrawals are spent on education expenses.

No matter what your financial situation is, maintaining a budget, hitting your retirement savings goals, and setting healthy financial priorities are time and energy well spent.

Ultimately, only you can decide the "right" balance of saving and spending goals for you and your family. If you'd like to learn more, we have additional tools and resources to help, including some useful tips and techniques to boost your savings, at **Fidelity.com/buildingwealth**.

In the next chapter, we'll discuss the best types of accounts for putting your hard-earned retirement savings to work.

To-dos

- ☐ Set and keep track of your monthly budget
- ☐ Adjust your spending priorities to help you reach your savings goals
- ☐ Set up your monthly savings to go into your 401(k) and IRA automatically

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Where to invest your savings

As your savings grow, you'll need to find the best places to invest them, but not all accounts are created equal.

In this chapter, we'll discuss the structures and benefits of the most common retirement savings accounts:

- Tax-advantaged 401(k)s
- IRAs
- Deferred variable annuities
- Taxable brokerage accounts
- Health savings account

401(k) accounts

Many publicly traded and privately held companies offer a 401(k) retirement plan as part of their employee benefits. For some public-sector or nonprofit employees, the retirement plan is called a 403(b) plan, but for our purposes we'll refer to the blanket term of "401(k)."

401(k) accounts are considered tax advantaged, and because of the tax breaks they offer, they're incredibly powerful tools for growing your retirement nest egg.

1 Individual contributions to a 401(k) may be pretax (so they are exempt from income taxes for that year) or they may be made after-tax (as they are for a Roth). You don't pay income tax when the money is contributed to a 401(k), only when it is distributed.

2 Any interest, capital gains, and dividends that may be earned on the investments in your 401(k) aren't taxed at the same time, but are instead compounding tax free while in your account. And after all those years of tax-free compounding, withdrawals from your 401(k) are taxed as regular income, when many retirees may be in a lower income-tax bracket.

3 As an employee benefit, many companies match a percentage of your annual contributions to a 401(k). In effect, this is "free money"—so at the very least, you should aim to contribute the full amount in order to receive the employer's match each year. However, many companies impose a vesting schedule on their contributions, meaning you must work a certain number of years before the contributions become fully vested.

4 401(k)s have annual contribution limits. For 2024, an individual's annual contributions are capped at \$23,000 per year or \$30,500 once you turn age 50. The amount of annual contributions are indexed, and the IRS announces the new limits in the fourth quarter of each year. Withdrawals made before the age of 59½ may be subject to a 10% penalty, unless one of the IRS exceptions applies, so resist dipping into a 401(k) before that time, if you can help it. And income taxes aren't deferred forever—at age 73, you're required to start receiving withdrawals, at least once per year, if you are no longer an employee of your company. Individuals who own more than 5% of a company must receive withdrawals, at least once per year, regardless of whether they are still working for that company.

5 401(k)s are among the most popular retirement savings accounts, and with good reason; you may have the opportunity to receive company contributions and may make additional employee contributions. In addition you can contribute from your own pay. If your employer or your partner's employer offers one, make sure you're enrolled and, ideally, maxing out your contributions to take advantage of tax-deferred growth.

6 If you're self-employed, you can open an individual 401(k) or similar small business plan.

7 Keep in mind that designated Roth 401(k)s are becoming more prevalent as an after-tax retirement savings vehicle.

Individual Retirement Accounts

If you've reached the annual limit of your 401(k) contributions, congratulations! Another way you may be able to save is with an Individual Retirement Account, or "IRA," for additional tax-deferred savings.

There are two primary types of IRAs available for most investors:

Traditional IRAs

Contributions may be tax deductible—if you meet certain requirements. Interest, capital gains, and dividends earned on the investments in your Traditional IRA grow tax deferred, until subject to ordinary income tax when you begin withdrawals in retirement or as early as age 59½.

Roth IRAs

Roth IRAs offer a different type of tax advantage. Annual contributions aren't tax deductible, so you won't get an immediate tax break. But qualified withdrawals in retirement that have been in your IRA for at least five years are entirely tax free, so you can avoid taxes on your compounded growth, provided certain requirements are met.

Contribution limits for 2024:
Total annual contributions to your Traditional and Roth IRAs combined cannot exceed:
$7,000 (under age 50)
$8,000 (age 50 or older)

If you are self-employed or a small-business owner, you can consider opening a Simple Employee Pension (SEP), a Savings Incentive Match Plan for Employees Individual Retirement Account (SIMPLE) IRA, or similar plan, which may be eligible for higher contributions than a Traditional or Roth IRA.

Depending on your age, income, and participation in a 401(k) plan, an IRA can be a great way to increase your tax-advantaged retirement savings. To learn more about IRA options, talk to an advisor or check out the IRA comparison chart at **Fidelity.com/retirement-ira/ira-comparison**.

For more information on self-employed or small-business plans, go to **Fidelity.com/retirement-ira/small-business/compare-plans**.

Deferred variable annuities

Another option for people looking to save for retirement while managing their exposure to income taxes is a deferred variable annuity. This can be a good way to boost your retirement savings once you've made the maximum allowable contributions to your 401(k) and/or IRA.[3] Like any tax-deferred investment, earnings compound over time, providing growth opportunities that taxable accounts lack. What's more, deferred variable annuities have no IRS contribution limits,[4] so you may be able to invest as much as you want for retirement.

[3]Each individual's situation is unique and therefore seeking additional guidance from a tax advisor is suggested. Although variable annuities offer tax-deferral, if you are considering one to fund a qualified retirement plan or IRA, you should do so for the variable annuity's features and benefits other than tax deferral. In such cases, tax deferral is not an additional benefit of the variable annuity. References throughout this material to income tax advantages, such as tax deferral and tax-free transfers, are subject to this consideration.

[4]The issuing insurance company reserves the right to limit contributions.

Bear in mind that withdrawals of taxable amounts from an annuity are subject to ordinary income tax, and, if taken before age 59½, may be subject to a 10% IRS penalty unless one of the IRS exceptions applies. Annuities also come with annual charges not found in mutual funds, which will affect your returns.

Deferred variable annuities are usually best for those individuals with longer time horizons or those who are better able to handle market fluctuations; while their underlying investments have the potential for growth, they also have potential for loss.

Health savings accounts (HSAs)

Health savings accounts allow you to save for health expenses now and in retirement. If your employer offers an HSA-eligible health plan, you may have access to an HSA option—or if you have purchased a high-deductible health plan on your own, consider an HSA.

These accounts provide three tax benefits: your contributions are either pretax or tax deductible, so you reduce your current taxable income; your savings can grow tax deferred; and when you use the money for qualified medical expenses, you can withdraw your savings tax free. And after age 65, the assets in an HSA can be used for any nonmedical expenses, such as COBRA, certain Medicare premiums, and long-term-care insurance, without penalty. However, assets withdrawn for nonmedical expenses will be subject to ordinary income tax.

As you can see, taking advantage of tax-deferred accounts is a powerful way to grow your investments and provide the income you'll need in retirement.

Aim to maximize your contributions to these accounts each year, and consider a taxable brokerage account for additional investments toward your retirement savings goals.

To learn more about the rules, benefits, and other types of these accounts, such as 401(k)s and IRAs, check out our 401(k)/IRA deep dive or come in to chat with an advisor.

Wherever you choose to invest, you'll need to make some decisions about the style and type of investing to pick a strategy that's right for you. In the next chapter, we'll cover some fundamentals of smart, long-term investing.

To-dos

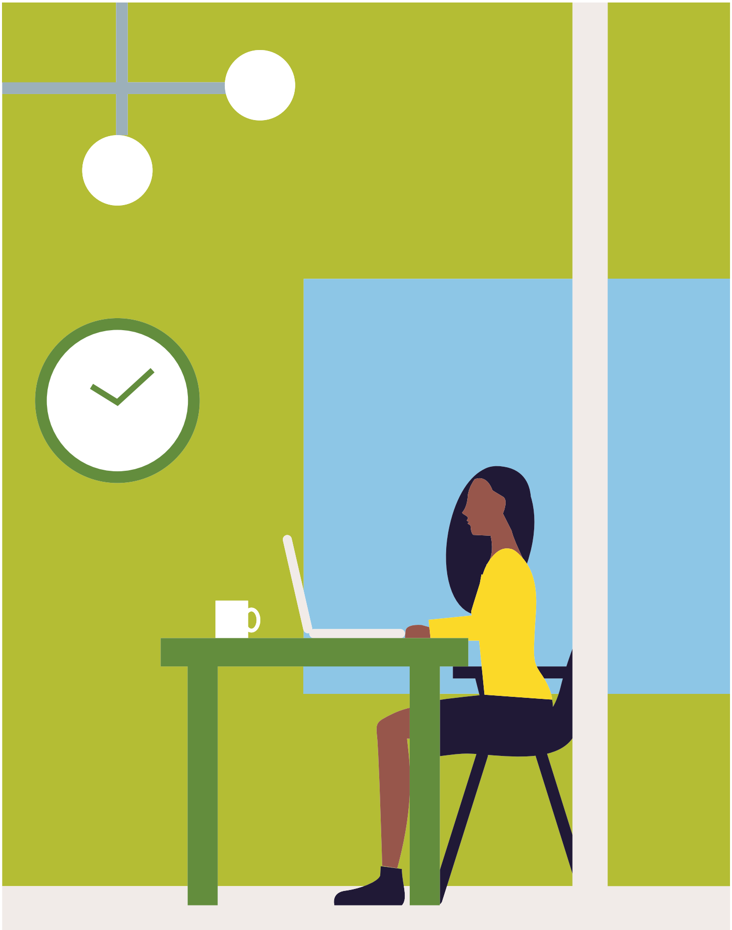
- ☐ Sign up for your 401(k) plan and contribute regularly
- ☐ Consider an IRA for additional savings
- ☐ Consider a deferred variable annuity
- ☐ Consider an HSA to save for health expenses now and in retirement
- ☐ Consider how you can supplement your savings with a brokerage account

Taxable brokerage accounts

If you are already saving, and investing the maximum contribution in your tax-advantaged 401(k)s and IRAs, there are other ways you can invest additional savings to reach your retirement goals.

Through a brokerage account, you can also buy and sell stocks, bonds, mutual funds, and other types of investments—we will explain these in more detail in the next chapter. Brokerage accounts can be used for a variety of goals, from saving for retirement to saving for a new home.

Brokerage accounts are subject to IRS income tax rules, so you may have to pay taxes each year on any earnings, including any capital gains. However, there are some smart strategies designed to help reduce your tax burden over time.



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Smart investing for the long term

Once you've identified your savings goals and decided which accounts to save in, you'll need a thoughtful investing strategy to put your money to work most effectively.

In this chapter, we'll discuss the primary types of investment assets, different ways to allocate your savings across a range of them, and why a diverse mix is important.

Diversification

At its most fundamental, the goal of retirement investing is using your income to buy assets that grow in value over time. Once you're done earning a salary, you can use these assets to generate retirement income.

All investing carries some degree of risk, but there are some tested strategies for balancing that risk with the potential for growth.

By far, the most important principle for long-term investing is having a diverse mix of assets, so the growth you're counting on doesn't depend on any one investment, or broader market forces that you can't control.

Asset classes

Broadly speaking, there are three main types, or “classes” of investment assets, each with its own pros and cons:

Stocks

are shares of ownership in a company and typically have the highest potential for growth and earnings over the long term. But they’re exposed to the most short-term loss if the company doesn’t perform, or if the broader stock market decreases.

Bonds

are debt issued by a company or governmental body at an agreed-upon interest rate and schedule. At the end of the loan term, you’re paid back the principal, plus interest. Typically, and depending on the terms of the bond, bonds provide less growth than stocks, but have less risk of loss.

Cash Accounts and Investments

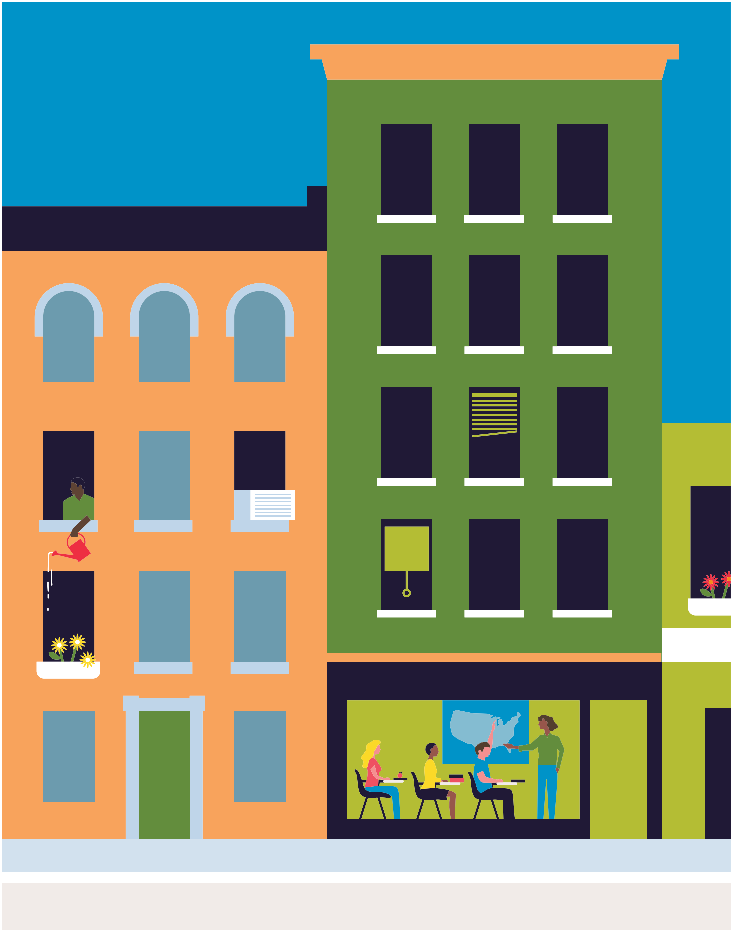
allow you to safely store your cash or invest it for short periods of time—typically one to five years—to accrue interest. These include savings and checking accounts, money market accounts, and certificates of deposit (or "CDs"). Relatively speaking, they're among the safest and easiest to access, but they offer the lowest returns.

Asset allocation

The relative percentage of stocks, bonds, and cash investments in your retirement accounts is your "asset allocation." Because each asset class has its own risk and growth potential, your allocation should change to reflect your tolerance for risk over time.

Early in your saving and investing years, for example, it's appropriate to take on more risk by having a large percentage of your assets in stocks. Historically, they provide the most growth, and if the market declines, you'll have time for your investments to recover.

But as you approach and enter retirement, you'll have less time to recover from swings in the stock market. So your asset allocation should be rebalanced toward a lower overall percentage of stocks, and a higher mix of less risky bonds and secure cash investments.

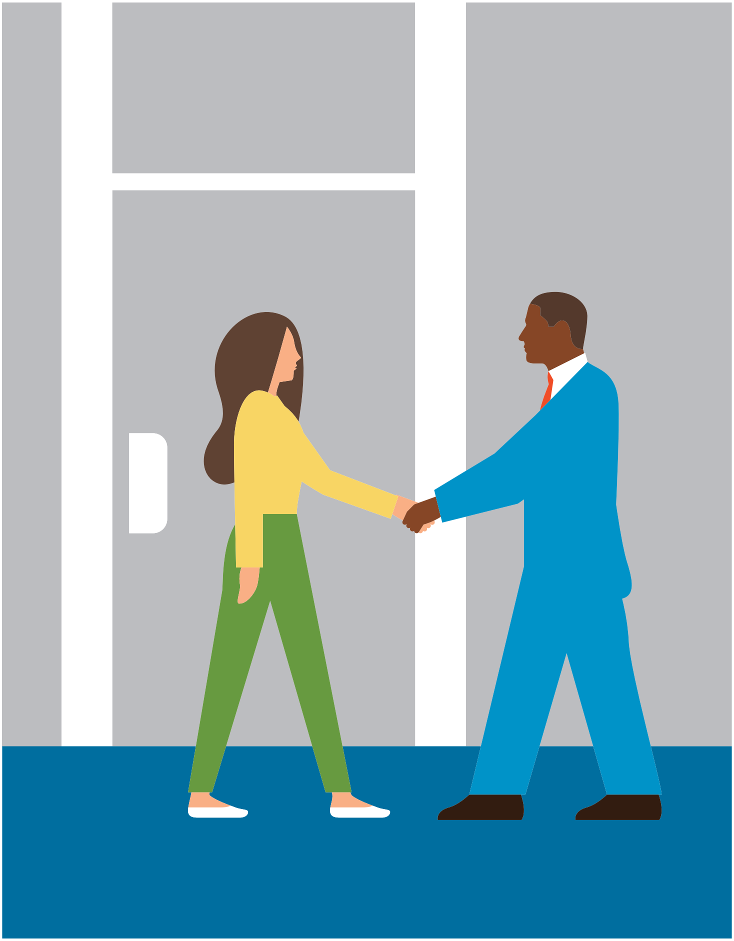


Mutual funds

Mutual funds are pools of investment money managed by professional investors. They're one of the best ways to build diversity into your investing strategy, because a single fund makes many investments within particular asset classes, depending on the mutual fund's objectives.

Mutual funds typically focus on a combination of stocks, bonds, or cash investments. They're set up and managed with different goals in mind, so it's important to do some research or talk to an advisor.

For many personal investors—who don't want to spend the time researching or trading individual stocks or bonds daily—mutual funds are a great way to build diversification into your portfolio.



Maintaining balance

At least once a year, it's important to take the time—by yourself or with an advisor—to review your investment accounts and holdings. Your needs, goals, and risk tolerance may change over time, so make sure that the asset allocation in your plan is up to date and aligned with them.

Whether you're a hands-on investor or prefer a more passive approach, evaluating your progress regularly is a great way to keep savings priorities top of mind.

However you decide to invest your retirement savings, remember that building diversification into your mix of investments is important. Maintain a diverse mix of assets, and assess your allocation regularly to meet your needs over time.

Of course, if you're interested, there's a lot more to learn about investing strategies. Our website has a wealth of detailed information, or we'd be happy to discuss your plans in person.

To-dos

- ☐ Ensure that your investments are well diversified across asset classes and fit your needs and goals
- ☐ Review and rebalance your portfolio regularly

We hope that you found *Building for the Future* worthwhile.

We'd like this guide to be useful to as many people as possible, so please feel free to share any thoughts or feedback.

Whatever your goals, circumstances, or retirement timeline might be, we're happy to share more information, talk about your needs, and work together to build a plan that's right for you and your family.

Thank you for reading!

We'd be happy to help you prepare for retirement.
Please feel free to call us, or come in to meet in person.

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Before investing, consider the investment objectives, risks, charges, and expenses of the annuity and its investment options. Contact Fidelity for a prospectus or, if available, a summary prospectus containing this information. Read it carefully.

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

Diversification and asset allocation do not ensure a profit or guarantee against loss.

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