



Q&A: Guaranteed Income Direct

Fidelity Guaranteed Income Direct, a new digital solution, allows participants to convert all or a portion of their defined contribution (e.g., 401(k), 403(b) or 457(b)) plan savings into an immediate income annuity to provide consistent, pension-like payments¹ throughout retirement. This solution addresses the growing demand for annuities¹ as a retirement savings distribution option to help cover essential expenses in retirement.

Annuities and the SECURE Act

1. What is driving demand for this type of solution?

Fidelity Guaranteed Income Direct solution addresses the growing interest among employers, and their employees, for an annuity option that is offered through the company's retirement savings plan and available to them when they reach the point of retiring.

A key challenge for workers as they transition from saving for retirement to living in retirement is ensuring they have enough predictable income to cover essential expenses. A guaranteed income solution is a way to address those expenses, especially if social security and/or a participant's pension will not provide enough income in retirement to cover all essential expenses. For some workers, no matter how they saved during their accumulation years, they may need some type of guaranteed income as part of their overall retirement income plan. Fidelity's Guaranteed Income Direct offers access to lifetime income for participants at all savings levels and investor types who are eligible for a distribution from a plan offering distribution annuities.

2. How does the SECURE Act make offering annuities more attractive for plan sponsors to offer their participants?

The SECURE Act provides a new safe harbor intended to clarify plan sponsor requirements for evaluating the financial stability of annuity providers. Financial stability of an insurance provider, or the provider's ability to make future guaranteed income payments, is an important consideration for plan sponsors evaluating whether to offer annuities, either in plan or out of plan, to their defined contribution plan participants.

3. What are Fidelity's views regarding the offering of lifetime income options?

We believe retiring participants require retirement income plans that are targeted to their unique circumstances and income needs. Through our comprehensive retirement planning and guidance experience, we help participants develop a retirement income plan that considers a combination of lifetime income solutions along with other forms of distribution offered through an employer's retirement plan.

4. What is Guaranteed Income Direct?

A service that provides access to guaranteed income through a plan provision allowing an annuity as a distribution option. Employees can setup pension-like payments by purchasing an immediate income annuity from a 3rd party provider of the employer's choice. This solution is easy to understand, and participants are making the annuity decision at the point of retirement when their guaranteed income needs are better known. This approach is simple to implement, change or modify.

Adopting the Service

5. Who chooses the annuity provider?

The plan sponsor selects the annuity provider of their choice based on their ability to meet their set criteria such as ratings, financials, product and service model to meet the needs of their participants. Plan sponsors can leverage the SECURE Act safe harbor in the selection of the insurer. To help plan sponsors select annuity provider(s), Fidelity will make available a reference guide including a sample request for proposal.

6. How does a plan sponsor add the service?

Your managing director will work with you to add the service. It may take up to 10 weeks depending on the a plan sponsor process to add the service begins.

Features of Guaranteed Income Direct

7. How does it work?

Fidelity's Guaranteed Income Direct enables plan sponsors to offer their plan participants a straightforward and simple solution of a guaranteed income annuity as a plan distribution option combined with online tools to help workers understand the amount of guaranteed income that may be right for them. Because the product is offered as a withdrawal option from a company 401(k), 403(b) or government 457(b) plan, participants have the flexibility to convert all or a portion of their retirement plan savings to guaranteed income, based on their personal and household needs. Any savings that workers do not convert to an annuity remain in their workplace savings plan unless they initiate further withdrawals. The entire experience is integrated with Fidelity's employee benefits portal, which also includes education and support from Fidelity to help employees as they consider their options.

8. What are the features of the annuity a participant can purchase?

Through a group contract in which the plan sponsor is the owner and the participant is the annuitant, an immediate annuity can be purchased with institutional, gender-neutral pricing. An immediate income annuity allows participants to begin income payments between 1 – 12 months. Participants can elect lifetime income for themselves (single life) or for themselves and their spouse (joint and survivor).

In addition, participants can select from the following annuity features:

- Cash Refund – Participant beneficiaries may receive a one-time payout – the difference between the investment amount and total payments issued.
- Annual Increase – For those that are concerned about inflation, participants can select to have monthly payments increase by 2% or 3% each year.

In addition, a participant can choose to have income for certain length of time with the following:

- Period Certain – Participants may choose a non-lifetime income stream in which they select income payments for a certain period time (e.g., 5 years, 10 years, 15 years). This might be desirable if a participant is wanting to delay Social Security or pension payments and create a bridge until those payments begin.

Fees and pricing

9. How does this institutional offering work?

Through the insurer selection process, each insurer considered will underwrite annuity rates for the plan based on unisex tables per regulations. As in other due diligence processes, rates should not be the only considerations for selection in leveraging the SECURE Act. Rating, financials services and other considerations should be incorporated in the selection.

10. What are the fees associated with Guaranteed Income Direct?

Plan Sponsors will not have a charge associated with adding this service. Fees may be associated to amend plan documents by plan administrator. Fidelity may receive compensation from the insurance company to provide this service and support.



For Plan Sponsor use only

¹ **Annuity guarantees are subject to the claims paying ability of the issuing insurance company.** In a defined benefit pension plan, pensions are guaranteed by the employee's employer unless the employer transferred the liability to a third-party insurance company. Also, unlike pensions, annuities must be purchased and have associated costs and expenses.

² Internal information based on Fidelity 401 (k) and 403(b) participants ages 50-64, as of September 30, 2021.

Annuity products and services may be offered beyond those of an employer-sponsored retirement plan. A contract's financial guarantees are solely the responsibility of and are subject to the claims paying ability of the issuing insurance company.

Annuities available as plan distribution options are selected by the plan's fiduciaries and sold and issued by third-party insurance companies which are not affiliated with any Fidelity Investments company. Fidelity Insurance Agency, Inc. ("FIA") or an affiliate may receive a fee from the issuing insurance company for plan-related services; however, FIA does not directly or indirectly solicit, negotiate, or sell any annuities available as plan distribution options. The forms of annuity payout may be subject to requirements imposed by the plan and/or the Internal Revenue Code and may not be available in all employer-sponsored retirement plans. Eligibility requirements may apply. A contract's financial guarantees are solely the responsibility of and are subject to the claims paying ability of the issuing insurance company.

Pension benefits are generally guaranteed by the plan sponsor unless the sponsor transfers the liability to a third-party. Unlike pensions, annuities must be purchased and may have associated costs and expenses. A contract's financial guarantees are solely the responsibility of and are subject to the claims paying ability of the issuing insurance company.

Participants should carefully consider all the available options and the applicable fees and features of each before moving their retirement assets.

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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