

Are you looking for more tax efficiency in your portfolio?

Consider the tax savings a low-cost, tax-deferred variable annuity may provide.

Affluent investors often hold the bulk of their liquid investments in taxable accounts, rather than in tax-advantaged vehicles such as 401(k) plans, IRAs, 529s, etc. If this is your situation and you find you are subject to relatively high marginal income tax rates, there's a good chance you could benefit significantly from deferring taxes on any investment that generates large distributions that can be taxed at ordinary income rates, like short-term capital gains and/or certain types of interest and dividends.

One way to do this is to replace those investments held in taxable accounts with suitable alternatives held in tax-advantaged accounts. To the extent that you can fund employer plans, IRAs, and similar accounts, you should generally do so before considering other options. If taxable accounts constitute most of your portfolio, however, this process can only go so far because of certain limitations on tax-advantaged accounts. Even if you are eligible to make contributions to a tax-advantaged account, the investment options they offer may not be comparable to what is offered in a taxable account.

A low-cost, tax-deferred variable annuity such as the Fidelity Personal Retirement Annuity,¹ however, may give you the investment options you want with the tax-deferred advantages you need.

IS A TAX-DEFERRED VARIABLE ANNUITY RIGHT FOR YOU?

A tax-deferred variable annuity is not for everyone, but, generally speaking, the more questions on the next page that you can answer "yes" to, the more likely it is that you should consider reallocating certain assets to a tax-deferred variable annuity. However, it is important to keep in mind that with a tax-deferred variable annuity, all gains are taxed as ordinary income upon withdrawal, and a 10% IRS penalty may apply to withdrawals taken prior to age 59½. Also, unlike a taxable account, you're subject to an annual annuity charge, which is 0.25%* for the Fidelity Personal Retirement Annuity. You may also find tax efficiency by investing in a tax-sensitive equity fund within a taxable account.

*Contracts purchased with an initial purchase payment of \$1 million or more will qualify for a reduced annual annuity charge of 0.10% (the initial purchase payment is the amount applied to the contract on the contract date). Note: 0.10% pricing will continue to be available to existing contract owners as long as it is offered to new applicants.

¹Fidelity Personal Retirement Annuity (Policy Form No. DVA-2005 et al.) and, for New York residents, Personal Retirement Annuity (Policy Form No. EDVA-2005 et al.). Fidelity Brokerage Services, Member NYSE, SIPC, and Fidelity Insurance Agency, Inc., are the distributors.

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This material should not be considered investment, tax, or legal advice. You should consult your financial, tax, and/or legal advisor to assess your individual situation.

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ANSWER THESE FIVE QUESTIONS TO SEE IF A LOW-COST, TAX-DEFERRED VARIABLE ANNUITY COULD BE RIGHT FOR YOU.

1 *Do you have large holdings in tax-inefficient assets?* Certain investors with “highly tax-inefficient” assets may benefit greatly from a low-cost tax-deferred variable annuity. Tax-inefficient assets are defined as those assets with relatively low tax efficiency—those that tend to deliver most or all of their total returns in forms that are heavily taxed.

WHICH ASSETS ARE TAX INEFFICIENT?

Fixed-income investments	Almost all fixed-income investments other than municipal bonds and U.S. Savings Bonds are highly tax inefficient. Potentially higher returning, more volatile types of fixed-income investments (such as U.S. high-yield bonds and emerging markets debt) are the most tax inefficient.
Equity investments	Some equity investments are very tax efficient, with minimal distributions over long periods, but others with large and regular distributions that are taxed as ordinary income, like short-term gains, are tax inefficient. The chart on the next page can help you determine which equity investments might benefit from transitioning into a low-cost tax-deferred annuity.

2 *Are you currently subject to high marginal income tax rates?* Generally speaking, the higher your marginal income tax rate, the more you should consider the potential advantage of tax deferral offered by a tax-deferred investment. As a rule of thumb, if you fall into one of the two top federal income tax brackets—currently 33% and 35%—you may fit this description. Also, in some cases—depending on the state you live in—even if you are in a lower federal tax bracket, you still may be subject to a combined marginal income tax rate that is relatively high. Residents of New York City, for example, often fit this description. Allocating assets to a tax-deferred annuity may also help reduce your yearly income taxes, potentially avoiding the alternative minimum tax.

3 *Do you expect lower income taxes in retirement?* There are some reasons you may see lower income taxes at retirement, including:

- You move to a state that has much lower taxes than your current state
- You anticipate receiving less ordinary income than in previous years

If either of these situations applies, then an annuity may not only defer, but also help reduce, your taxes over the long run.

4 *Do you have significant liquid assets held in taxable accounts?* If you have significant assets in taxable accounts, or are likely to see sizable increases in your taxable accounts, you may benefit from tax deferral.

5 *Are you at least 10 years away from taking income in retirement?* The advantage of tax deferral is proportional to the amount of time available before the assets are withdrawn from the deferred account. In general, if you won't need access to this money for at least 10 years, you may be a good candidate for a low-cost, tax-deferred variable annuity. However, if you are planning to use an income bridge (such as a bond ladder or period-certain annuity) to cover all expenses during the early part of your retirement, you may also benefit from a low-cost, tax-deferred variable annuity, even if retirement is closer than 10 years away.

GUIDE TO THE POTENTIAL TAX EFFICIENCY OF EQUITY INVESTMENTS

While no indicator of the future potential tax efficiency of equity investments can be 100% accurate, these are generally reliable. In all cases, investors should consider the potential tax implications of selling assets in a taxable account to purchase a tax-deferred annuity. Note that the redemptions from the taxable account may produce gains subject to taxes, and those taxes may overwhelm any potential deferral benefit. Please note: Deferred variable annuities have additional expenses not found in taxable accounts, which impact performance.

Real Estate Investment Trusts (REITs) and REIT funds	REITs are required to distribute nearly all their earnings, and they're distributed in the form of ordinary income, so REITs and REIT funds are generally among the most tax inefficient of all equity investments. They should be among the very first equity assets that an investor considers for replacement into a tax-deferred annuity.
Small-cap funds relative to large-cap funds	Because small stocks that grow tend to leave small-cap indexes and therefore need to be sold by small-cap funds, as a rule small-cap funds see higher levels of capital gain distributions—and thus lower levels of tax efficiency than do otherwise similar large-cap funds.
High-yielding equities and funds (future tax considerations)	Most high-yielding common stocks, such as utilities, are generally tax efficient because the reduced rate on qualified dividends has been extended through 2012.
Indexed and tax-managed equity funds	With few exceptions, indexed equities are very tax efficient. However, REIT index funds are still very tax inefficient, and small-cap index funds tend to be less efficient than large-cap funds. Also, explicitly tax-managed equity funds tend to be fairly tax efficient.
Separately managed accounts (SMAs)	If an SMA is managed with an eye to tax efficiency, the manager may be able to harvest tax losses and use these to offset gains. Otherwise, they may be no more tax efficient than an ordinary actively managed equity mutual fund.

Lower maximum tax rates on capital gains and dividends would make certain equity funds less tax inefficient, and reduce the potential deferral benefit of investing in a tax-deferred account.

A HYPOTHETICAL EXAMPLE: ADRIAN

Adrian is a 51-year-old dentist with a thriving practice who has been in dentistry for more than 20 years, and he has saved up a considerable nest egg for retirement. He plans to wind down his involvement in the dental practice over the next few years and to work more on his real estate ventures.

Currently, Adrian estimates that his net worth is about \$5.25 million. Approximately \$4.5 million of his assets are tied up in his practice and real estate investments; the remaining \$750,000 or so is currently held in cash. Given the illiquidity of his practice and real estate investments, Adrian's advisor recommends that he keep \$500,000 of the \$750,000 in cash as an emergency fund, but suggests investing the remaining \$250,000 to support his lifestyle after he stops receiving income from the dental practice in 15 years or so.

The advisor suggests that the \$250,000 be invested fairly conservatively, despite the long time horizon—in a taxable bond fund. He suggests Adrian should also consider a low-cost variable annuity to help defer taxes on this investment. Adrian is currently in the top federal income tax bracket (35%), but anticipates that he'll be in a much lower tax bracket in 15 years. Because of this anticipated reduction in his marginal tax rate, by using a low-cost variable annuity, Adrian may be able to not only defer his taxes but reduce them as well.

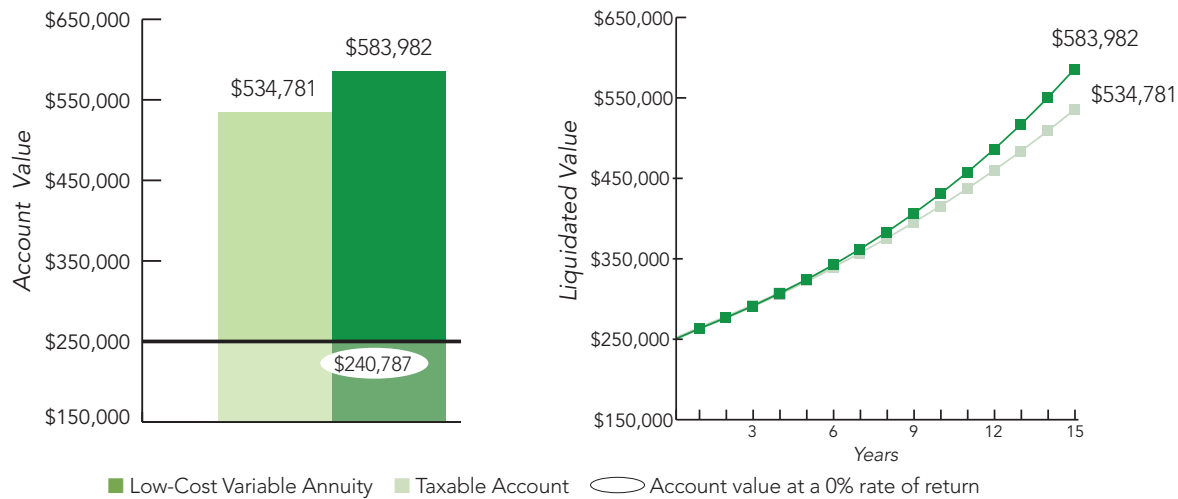
The chart on the next page compares the projected values following liquidation, in 15 years, of Adrian's proposed investments in a taxable bond investment under two scenarios: one in which it is held in a taxable account and one in which it is held in a variable annuity with a 0.25% annual annuity charge.²

The analysis suggests that using a low-cost VA would yield significant benefits for Adrian. After 15 years, his taxable bond investment would potentially be worth about 9.5% more after liquidation if held in the annuity. The analysis was conducted using marginal federal income tax rate of 35% for the entire time period.

²In both the taxable account and variable annuity, returns are assumed to derive entirely from income (characterized for tax purposes as ordinary income). In the taxable account, it is assumed that taxes incurred on this income are paid from the income itself, with the remainder reinvested. In the annuity, it is assumed that taxes on income are not paid until liquidation, with all income—less the 0.25% annual annuity charge—reinvested. It is assumed that the redemption from the taxable account to purchase the variable annuity does not result in any capital gains or losses. Fund and transaction fees for both accounts have also not been taken into account; if they had been, returns would have been lower.

Hypothetical Liquidated Value in 15 Years

Initial Investment Amount: \$250,000



This hypothetical example is not intended to predict or project investment results. Your actual results may be higher or lower than those shown here. The returns for the investment in the taxable account and variable annuity (VA) are assumed to be identical in pretax, pre-fee terms: 8%. The only differences between the two accounts are the way the investments are taxed and the imposition of a 0.25% annual annuity charge to the VA. Please note that while a proxy for a fund in a taxable account may be available in a VA, it will almost certainly not be exactly the same fund and therefore the pretax, pre-fee returns will differ, potentially by a significant margin. A deferred variable annuity is generally not suitable for investors with time horizons of less than 10 years, as in most cases there is little to no advantage over a taxable account for the first 10 years of the investment. See footnote 2 on the previous page for additional important methodology details.

For more information on how a tax-deferred variable annuity may help your personal situation, please speak to your advisor today.



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Before purchasing a deferred variable annuity, there are a number of important factors that need to be reviewed with a licensed agent to determine if a deferred variable annuity is suitable.

Principal value and investment returns of a variable annuity will fluctuate, and there may be a gain or loss when money is withdrawn.

Bond prices rise when interest rates fall, and vice versa. This effect is usually more pronounced for longer-term securities. Lower-quality or high-yield securities carry greater risk than investment-grade securities. Equity investments involve more risk because their value will fluctuate according to their performance. Investing in small-cap stocks may have greater risk because they are subject to abrupt or erratic price fluctuations.

Before investing, consider the investment objectives, risks, charges, and expenses of the fund or annuity and its investment options. Call or write to Fidelity or visit advisor.fidelity.com for a free prospectus and, if available, summary prospectus containing this information. Read it carefully.

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