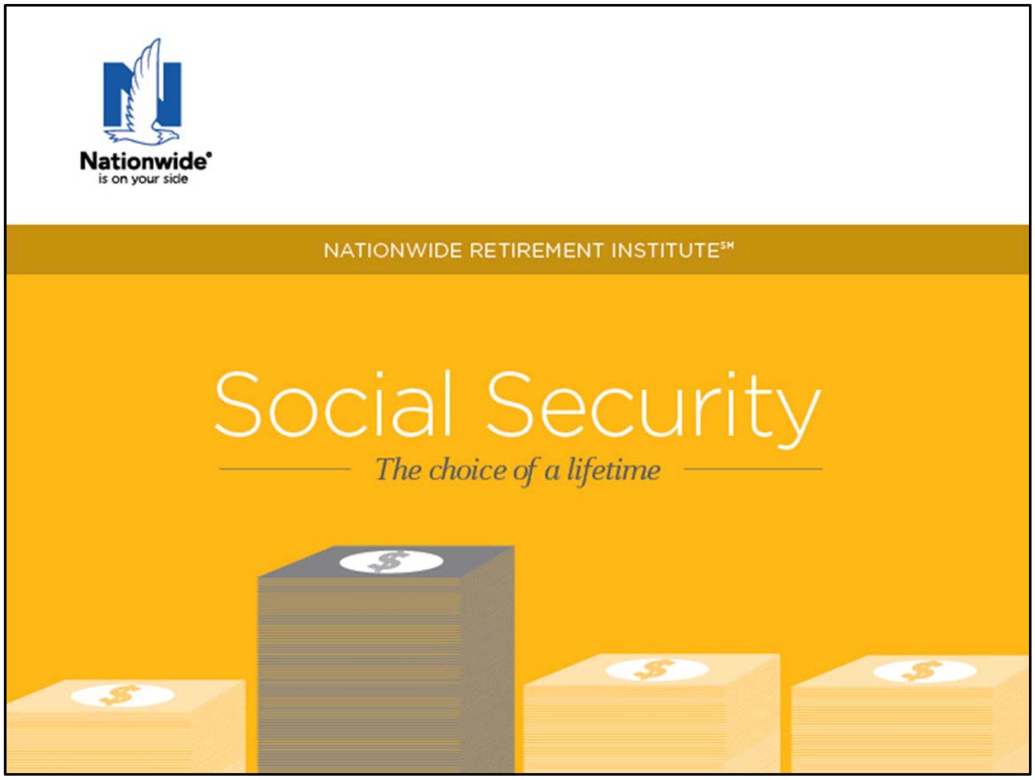


**Presentation Title: Social Security – The choice of a lifetime**

**Promotional description:** The Social Security decision is one of the most important decisions you will face about your retirement – a decision that could potentially result in accumulating hundreds of thousands of dollars in additional retirement income. Providing guidance for this important decision can set the stage for a broader discussion about their retirement income plans. This presentation breaks down and simplifies the many rules and filing options for Social Security, and demonstrates how you can make a suitable decision for your needs by analyzing and comparing different Social Security filing options.

**Presentation script begins below:**

Good [morning/afternoon/evening]. My name is [Wholesaler name] from Nationwide.

Today's presentation is focused on the Social Security opportunity.

- The choices about when and how to file for their Social Security benefits is one of the most important decisions you will make.
- It will have a direct effect on how your essential and discretionary expenses are met throughout retirement, and in most cases the decisions are permanent.

Social Security planning is an opportunity to work with your financial advisor lay a solid foundation for a comprehensive retirement income solution.

- Your financial advisor can help you in making the transition from accumulating assets for retirement to withdrawing those assets during retirement.
- Your advisor can also help you understand how to integrate Social Security

decisions into a retirement income plan

# Important things to keep in mind

Not a deposit • Not FDIC or NCUSIF insured • Not guaranteed by the institution
• Not insured by any federal government agency • May lose value

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The purpose of my presentation is to help prepare you for the Social Security decision with education and ideas for building a comprehensive retirement income plan.

- First, we’ll look at why the Social Security filing decision is the choice of a lifetime – or why your filing decision matters
- Then, we’ll get into some of the basics you need to know about Social Security, including the rules for spouses, widows/widowers, divorcees, etc.
- Next, we’ll talk about the different filing strategies you can use when making your Social Security decision and to optimize Social Security income for your specific needs


Let’s start with a look at why the Social Security decision is so important.

We say it’s a choice of a lifetime because you generally only get one chance to get this decision right, and the consequences of the decision will reverberate for the rest of your life (including the life of your spouse, if married.)


Let's look at how the Social Security filing decision can impact one hypothetical couple. (Please note that actual client scenarios will be different than the examples we'll use during this presentation.)

Meet Jim and Linda

- Both turned 62 in 2016 (born in 1954).
- Married for over 30 years
- Their household has over $500K in household assets, putting them in the top 13% of US. Households and highest income quintile (Annual income $110,000 and up; 50% of people with over $500K in assets are in highest monthly income quintile)
    - Based on the distribution of Primary Insurance Amounts, we've estimated Jim's lifetime income would put him in 14% of retired workers that receive a benefit of $2,100 or more.
    - If you work with mainly wealthy and affluent clients, this will likely be their situation as well.
- Linda's current monthly benefit is $1,300 based on her earnings history which was lower than her husband due to various factors including being out of the workforce for several years for their kids.

Let's look at the outcome that different Social Security filing decisions would have on this couple.

- If both file early at 62 and take a permanent reduction in benefits of 25%, they would accumulate just over $1.2M during their retirement
    - Assuming average life expectancy at age 65 of 86 for Jim and 89 for Linda
    - Figures assume future dollar value of benefit
    - Also assumes annual cost of living adjustments (COLA) of 2.7%, which is the average for projected future COLA increases as calculated by the Social Security Administration.
- But if both wait until age 70 to start benefits and increase their monthly benefit amount as much as possible (due to credits for delaying and cost-of-living adjustments), they would

accumulate over $1.6M from Social Security during their retirement

- Filing benefits early cost the couple over $400,000 in benefits that they would have collected by optimizing their benefits.

# Social Security

— The basics —



Before we get into a Social Security discussion or planning, there is some basic information you need to be familiar with.

The rules can be complex, but we'll break down and simplify them to help you know what you need to know for the next step—planning your Social Security filing decision.

SOCIAL SECURITY BASICS

## Primary Insurance Amount (PIA)

- Amount received each month if benefits start at full retirement age
- Based on lifetime Social Security earnings adjusted for inflation
  - Average indexed monthly earnings (AIME) over highest 35 years of earnings
  - Benefit reflects a percentage of avg. monthly earnings
  - Higher earners receive a smaller % than low-wage earners
  - Maximum PIA for 2016 is $2,639
- Social Security statements available on mySocialSecurity
  (Sign up at ssa.gov/myaccount)

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There are a few acronyms that I'll use in this presentation and are important to know. The first is PIA – or Primary Insurance Amount

- The formula for calculating Social Security benefits is different than the formulas you typically see used for calculating pension benefits (e.g., "high five" or "last three" earnings years).

[CLICK]

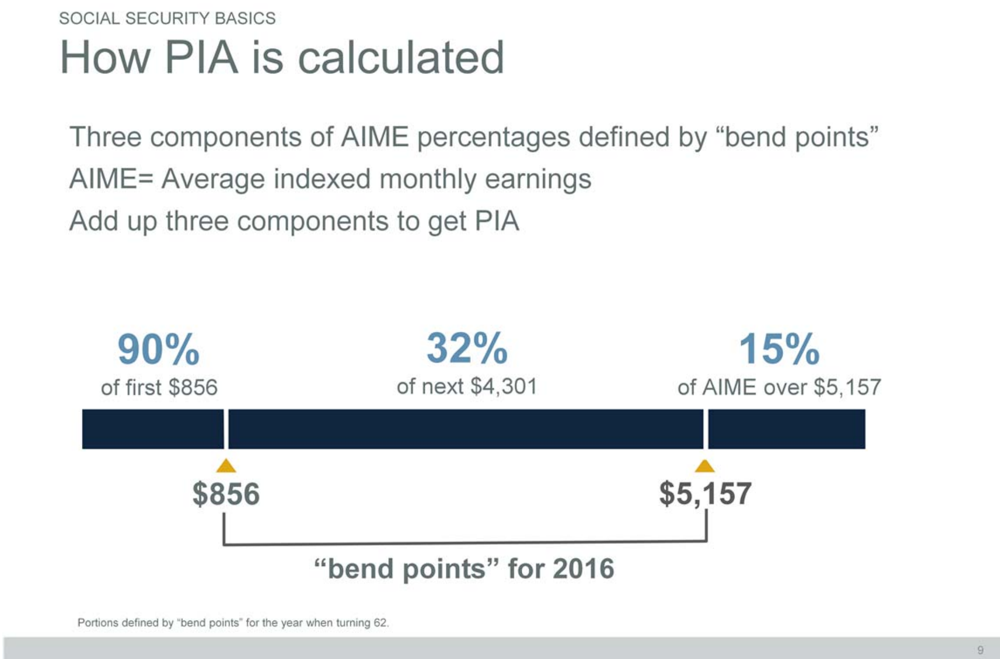
- Based on lifetime Social Security earnings adjusted for wage inflation
  - Highest 35 years of adjusted earnings added together, then divided by 420 (number of months in 35 years) to get a monthly average earnings
  - Benefit reflects a percentage of this average monthly earnings figure
- The higher your lifetime SS earnings, the higher your benefit.
  - Maximum monthly SS benefit in 2016 is $2,639 plus any delayed retirement credits
- If avg. annual income over lifetime earnings was higher than $118,500 (which is the cap for earned income subject to SS taxes), the worker will reach the max of their monthly SS benefits.
  - Higher earners receive a smaller percentage of their average earnings than low-wage earners as SS benefits.
  - Maximum PIA for 2015 is $2,663.
- PIA is also subject to cost-of-living adjustments (or COLA)

[CLICK]

- Know where to point clients to find their current PIA – mySocialSecurity web site
  - The statement summarizes their earning history, and gives a picture of what your monthly benefit is likely to be when you reach the different decision points

of 62, FRA and 70.

- The SSA no longer mails these statements annually to people under age 60. Instead, they now mail these statements to people in five year increments starting from 25-60, then annually after 60, unless the individual has signed up for a my Social Security account to access the statement online. (accessible through www.ssa.gov/myaccount)




How does the IRS calculate the primary insurance amount?

First, they use a person’s average monthly indexed earnings (AIME), which is calculated over his or her highest 35 years of earnings (see previous slide.)

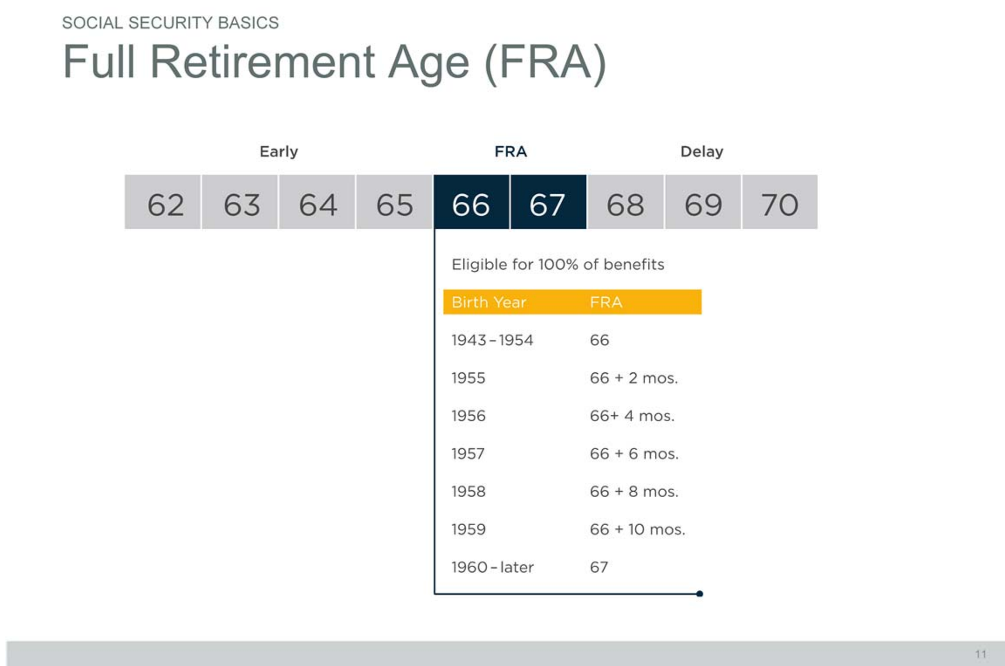
PIA is calculated by adding three separate percentages of different portions of a person’s AIME.

- The segments of AIME used for the PIA calculation are determined by “bend points” set by the IRS.
- Bend points are selected for the year in which the individual turns 62, even if benefits are not applied for until later.
- For 2016, the bend points are at $856 and $5,157. So the PIA for someone turning 62 this year would be calculated as follows:
    - 90% of the first $856 of their AIME
    - [CLICK]  Plus, 32% of the next $4,301 of AIME (up to bend point $5,157)
    - [CLICK]  Plus, 15% of AIME over $5,157


An example can help explain the PIA calculation. Let’s see how PIA is determined for 62-year-old Jim from earlier in the presentation.

Jim’s AIME over his 35-year work history is $6,845.

- 90% of the first $856 of AIME is $770.40
- [CLICK] 32% of the next $4,301 of AIME (up to bend point $5,157) is $1,376.32
- [CLICK] 15% of the remaining $1,688 of AIME is $253.2
- [CLICK] Add these percentages together for a PIA of $2,400

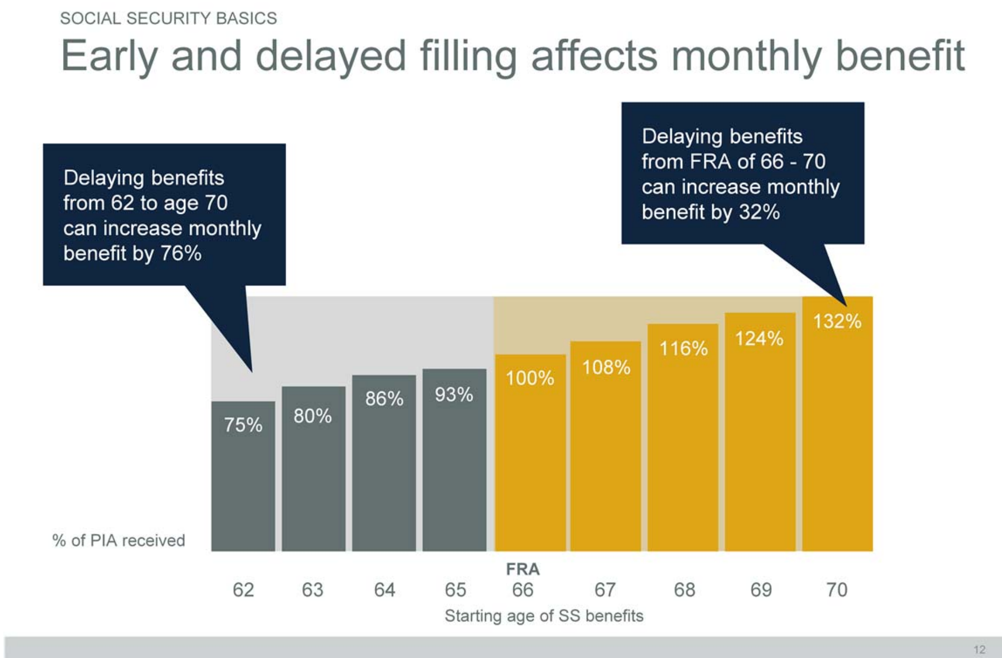



The next important acronym to know is FRA – or full retirement age.

- Used to be 65, and many people still believe 65 is full retirement age
- FRA is currently 66 and is gradually increasing to 67, starting with people born in 1943 or later
- People born in 1948 will reach FRA @ 66 in 2014.
- FRA is 67 for anyone born after 1960

Early filing can occur starting at age 62 up to FRA
- For anyone born in 1955 or later, age 66 is considered early

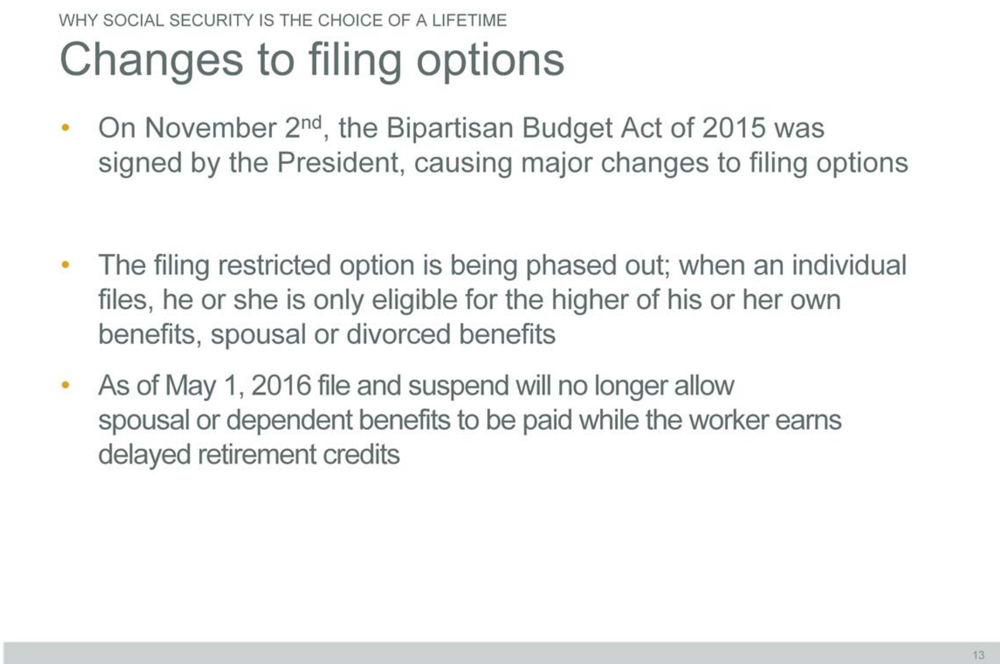
You can delay filing up to age 70 and increase your benefit amount, as we'll show on the next slide.




How does filing earlier or later than FRA affect PIA?

- This example is for an individual with an FRA of 66; in other words, born between 1943 and 1954

- Filing as early as possible at age 62 results in a permanent reduction in benefits of 25%
- Benefit reduction decreases the closer you get to FRA
- Delaying benefits increases PIA 8% each year, up to age 70. So someone with an FRA of 66 can increase their monthly benefit by 32% just by delaying benefits as late as possible.




On November 2, 2015, President Obama signed the Bi-Partisan Budget Act of 2015 into law.
The budget makes important changes to Social Security claiming rules for retirees surrounding the Restricted Application and the Voluntary Suspension.
The changes will have a significant impact on the claiming options retirees have as they consider how and when to file for Social Security benefits, and the conversations advisors need to have with their clients.

Specific rule changes:

- Filing restricted option is being phased out; when an individual files he is only eligible for the higher of own benefits, spousal or divorced benefits
- After the next 180 days, File and Suspend will no longer allow spousal or dependent benefits to be paid while the worker earns delayed retirement credits
- Also eliminates the ability to request a retroactive lump sum for all benefits between the date of the request and the date of suspension, so the only reason to request a Voluntary Suspension under the new rules will be to accumulate Delayed Retirement Credits.

# Rule change from Section 831(a)

**Rule change**

- Extends deeming rule to those born on or after January 2nd 1954; will no longer be allowed to file restricted for spousal benefits
- Deeming is for any age of eligibility, not just month of initial entitlement

**Impact**

- Those born on or after Jan 2nd 1954 will have the opportunity to implement timing of social security to optimize the income received



The first change is in Section 831(a) of the from the Bipartisan Budget Act of 2015. This rule changes the usage of the Restricted Application for spousal benefits.

Prior to the new law, an individual who was eligible for both a spousal benefit based on the work record of a spouse and a retirement benefit based on his or her own work could choose to elect only a spousal benefit at Full Retirement Age.

This allowed his or her own benefit to accumulate 8%-per-year Delayed Retirement Credits and then switch to his or her own larger benefit at any point in the future up to and including age 70. This option is called a Restricted Application.

The new law phases out this option. For people born Jan. 1, 1954, or earlier, the option to file a Restricted Application for only spousal benefits will remain available.

But for people born Jan. 2, 1954, or later, an application for retirement benefits or for spousal benefits will automatically trigger entitlement to the other benefit.

Further, if a participant is not eligible for spousal benefits (because his or her spouse had not yet elected) but later becomes eligible for a spousal benefit, entitlement is automatic and occurs on the first day of eligibility. Since the option to file a Restricted Application for only spousal benefits is only available under prior law at Full Retirement Age and the rules take effect only for people who are currently under age 62, this option is still effectively phased in over a four-year period.

WHY SOCIAL SECURITY IS THE CHOICE OF A LIFETIME

## Rule change from Section 831(b)

- Voluntary suspension will now require suspension of the wage earners benefit plus suspension of all benefits payable under the wage earner's record
- Dependents can no longer claim other benefits while the wage earner's benefits are suspended
- Anyone who voluntary suspends (after 1 year) can no longer request retroactive benefits back to the beginning of a suspension
- This change is grandfathered and will be effective after April 30th 2016

**Impact**

- Those born before May 1st 1950 and who file for voluntary suspension prior to April 30th 2016 will be grandfathered

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The second change is in section 831(b) from the Bipartisan Budget Act of 2015.
It concerns voluntary suspensions. Under current law, a lower-earning spouse is eligible for spousal benefits only after the primary wage earner under whose record she is filing has filed for benefits. The checks to the higher wage earner would stop, allowing the higher wage earner's benefit to grow by 8% per year, increasing not only the retirement benefit, but also the benefit payable to the spouse upon his death.
While the benefit was in suspense, the spouse was able to collect a spouse's benefit.
The new law causes a Voluntary Suspension to stop all benefits payable under the earnings record of the person whose benefit was suspended. In other words, the spouse will not be able to collect a spousal benefit during the time that the wage earner's benefit is suspended.
The new law also eliminates the ability to request a retroactive lump sum for all benefits between the date of the request and the date of suspension, so the only reason to request a Voluntary Suspension under the new rules will be to accumulate Delayed Retirement Credits.
This portion of the law is phased in over a much shorter timeframe. Only people who suspended benefits in the past or within the first 180 days after enactment will fall under the old rules, and will continue to fall under the old rules until they reach age 70 or un-suspend benefits.
People who request a suspension after 180 days of enactment will fall under the new rules.

# Complexity of understanding the rules increases

| **Individual date of birth** | **Grandfathered** | **May 1st 1950 or before** | **January 1st 1954 or before** | **January 2nd 1954 or after** |
|---|---|---|---|---|
| Strategies available | Anybody who has already filed will not be impacted by legislative changes | File and suspend available as long as voluntary suspension occurs by **April 30, 2016** | Restricted application available, once individual is eligible | Deemed filing rules apply, and timing strategies available |
| Strategy examples | | **Jim** file and suspends, allows his benefits to grow at 8%<br><br>**Linda** files restricted, collects spousal benefit and allows her benefit to grow at 8% | **Jim** collects benefit or was born before May 1, 1950 and filed and suspended<br><br>**Linda** files restricted to collect spousal benefit and allows her benefit to grow to 8% | **Jim** files for his benefits<br><br>**Linda** files for her benefits and receives spousal access, if spousal benefit is greater than hers |



The impact on planning for couples is nuanced. There are now three sets of rules:

1) People Born on or before 5-1-1950 (Turn 66 for Social Security purposes in April 2016) – Have access to both Voluntary Suspension that allows auxiliaries to claim as long as the request for Voluntary Suspension occurs on or before 4-30-2016, and Restricted Application.

2) People Born on or after 5-2-1950 but before 1-2-1954 – Voluntary Suspension also suspends benefits of other auxiliaries, including spouses and children, and an individual whose benefit is in suspense can't receive spousal excess. This group still has access to the Restricted Application.

3) People born on or after 1-2-1954 - Voluntary Suspension also suspends benefits of spouse and children, and an individual whose retirement benefit is in suspense can't receive spousal excess. This group no longer has the option to file a restricted application for spousal benefits.

- Couples with age gaps could mean each falls under a separate set of rules

# Filing rules for different situations

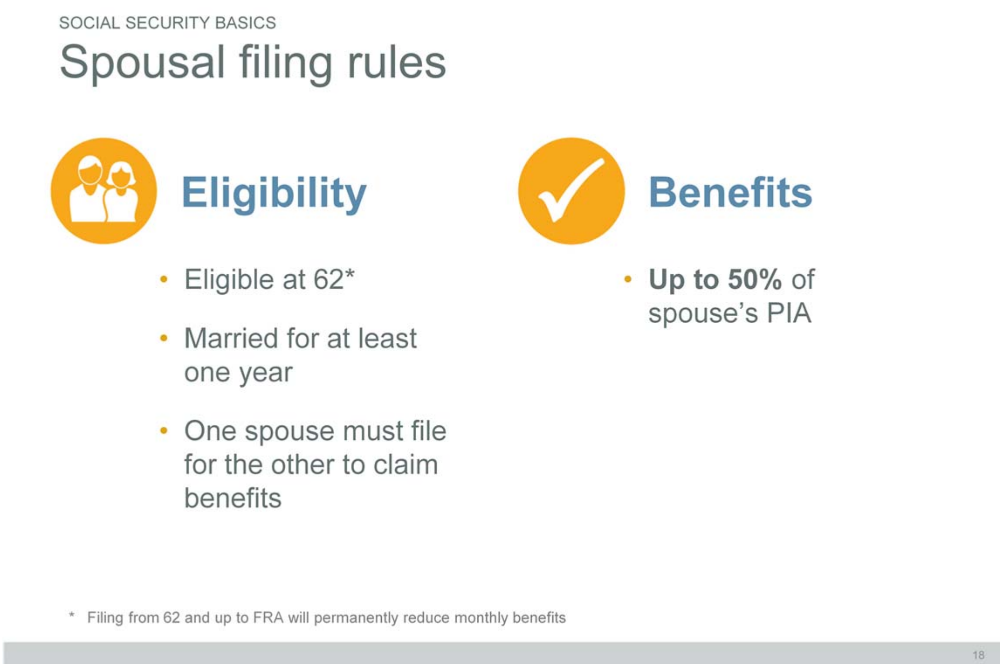
Surviving spouses

Spouses

Divorced spouses

Dependent children

Disabled individuals




Let's start this discussion of the filing rules with what's likely the most common scenario – married couples

- 78% of mass affluent are married (LIMRA Analysis of 2010 Survey of Consumer Finances, Federal Reserve, 2012)
- Spousal benefits can represent significant dollars for a non-working, low benefit spouse

Filing rules for spouses can be complex, but knowing how to apply these rules effectively can help a married couple optimize their benefits, especially for providing income to the surviving spouse.

- There is also low awareness among married couples of how these rules work -- 47% of retirees were not aware of spousal SS benefits (Assessing Current and Future Beneficiaries' Knowledge of Social Security Benefits, AARP, 2011)

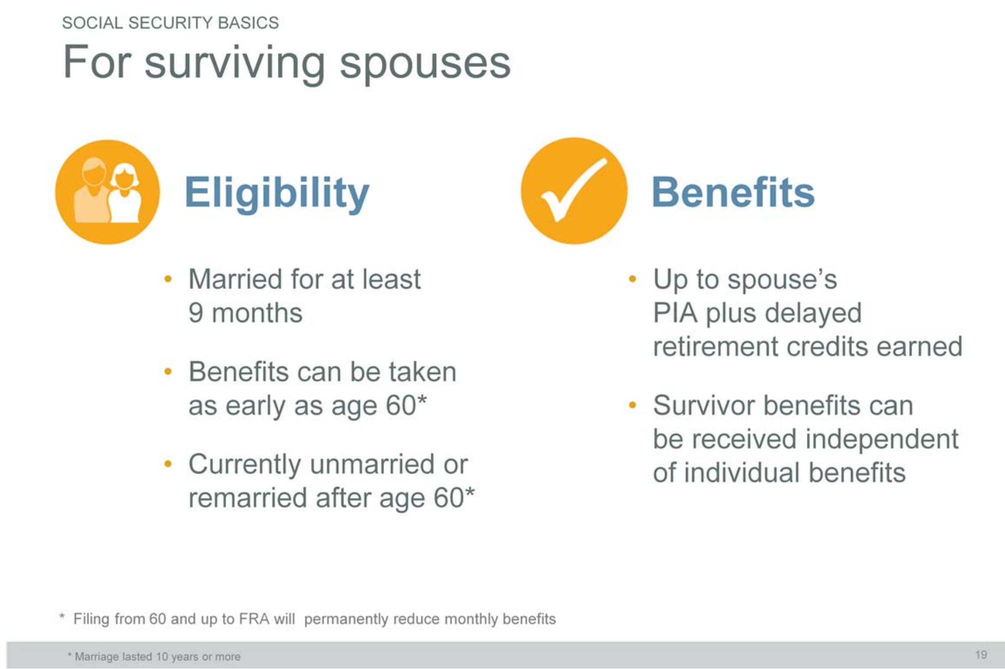
- Spouses are eligible for benefits based on their working spouses record
    - To be eligible for spousal benefits, the spouse must be 62 and married for at least one year
        - Filing for spousal benefits early also reduces benefits
    - Primary worker has to have filed for benefits

[CLICK]

- Benefit
    - Spouse can receive up to 50% of workers PIA

    - If claiming both individually and as a spouse, spousal benefit will be subject to the spousal adjustment (individual benefit-50% of spouses PIA)

- Filing strategies for married couples are very complex
    - Most strategies for married couples differentiate with the use of spousal benefits
    - Cannot receive spousal benefits only
        - If filing prior to FRA, it is considered a “deemed filing” – in other words, you are filing for all eligible benefits (Deemed filing).
    - Filing for spousal benefits at FRA allows individual to earn credits on individual benefit
        - Subject to maximum family benefit for 150 – 180% of higher income earner’s PIA




For married couples, it's also important to know how the rules for surviving spouses work.

- 6% of US population 55-65 is widowed, 40% of women 65 and older are widowed
- Making use of the benefits available can significantly affect lifetime earnings from Social Security

The survivor benefit is at least PIA but can also earn credits. So it's important to think about survivor benefits when beginning Social Security

- A widow or widower is eligible based on deceased spouse's record
  - Benefits available as early as age 60
  - Married for at least 9 months
  - Children under 18 are eligible as well

[CLICK]

- Benefit
  - Maximum benefit a survivor receives is the greater of deceased spouses benefits, including delayed retirement credits, or 82.5% of deceased PIA.
    - This is because the SSA limits benefits depending on if and when the deceased began benefits.
  - Depending on when the survivor elects to receive they will receive between 71.5% and 100% of the survivor benefits.
  - One time death benefit

- Survivor benefits can be used to allow individual insurance amount to grow
    - Survivor benefits can be received independently of individual benefits
    - A widow or widower can apply for survival benefits only


If you are divorced, you may also be eligible for SS benefits based on your ex-spouses record. But certain rules apply:

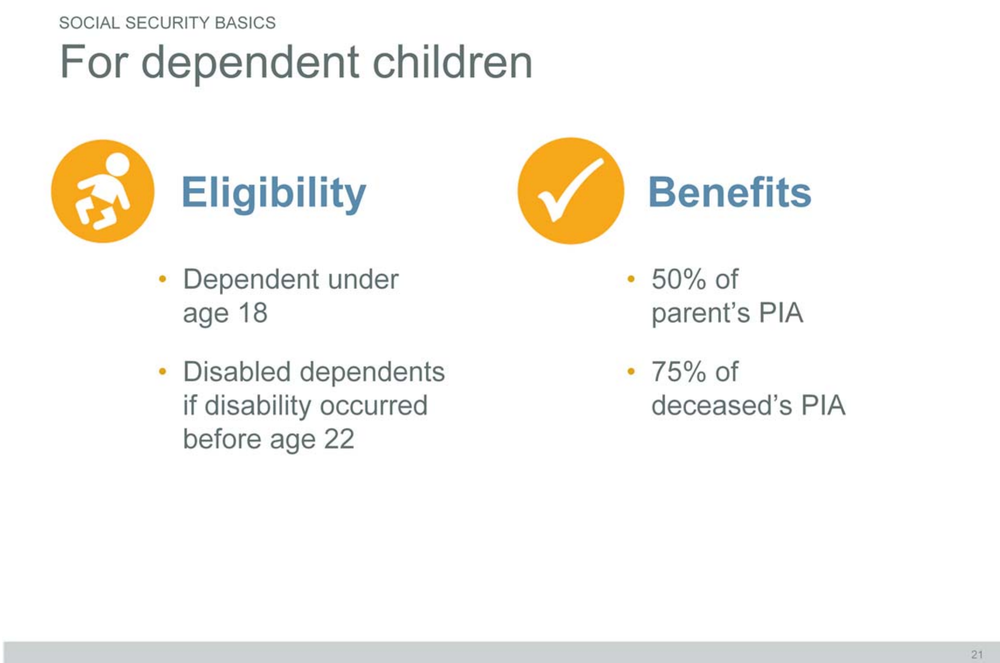
- Marriage must have lasted more than 10 years
- You are currently unmarried 60
- Benefits can begin at 62 and ex-spouse does not have to apply to enable eligibility if divorce occurred two years ago or longer. (This is called being “independently entitled”).

- Can provide opportunities for increased Social Security benefits

- You may fall under these eligibility requirements, yet are unfamiliar with the rules
    - 18% of US population between 55-64 are divorced (Source: U.S census bureau, 2012 American Community Survey)
    - Especially important to women -- 20% of women aged 45-55 are divorced (Source: U.S census bureau, 2012 American Community Survey)

[CLICK]

- Benefits
    - Spousal benefits
    - Survivors benefits
    - Not subject to the family maximum




It's also important to consider any other family members who may be eligible to receive benefits from SSA. For example, children who are under 18 and unmarried may also be eligible for Social Security benefits on their parents' records.

- 40% of U.S households have children in their household (LIMRA Analysis of 2010 Survey of Consumer Finances, Federal Reserve, 2012)
- 25% of mass affluent to affluent households have children 18 and under(LIMRA Analysis of 2010 Survey of Consumer Finances, Federal Reserve, 2012)

- Collect based on retired parent
  - Parent must have filed for benefits, be 62 or older and fully insured (meaning already earned 40 credits to qualify for SS benefits)
- Collect survivor benefits from deceased parents
  - Children can collect if the parent dies before 62. There are two conditions that need to be met in order for a child to collect benefits from a deceased parent:
  - One credit of coverage for every year between 21 and death
  - 6 credits in the 3 years before death.
  - There is no early claiming reduction for children's benefits, but also no delayed retirement credits on these benefits

[CLICK]

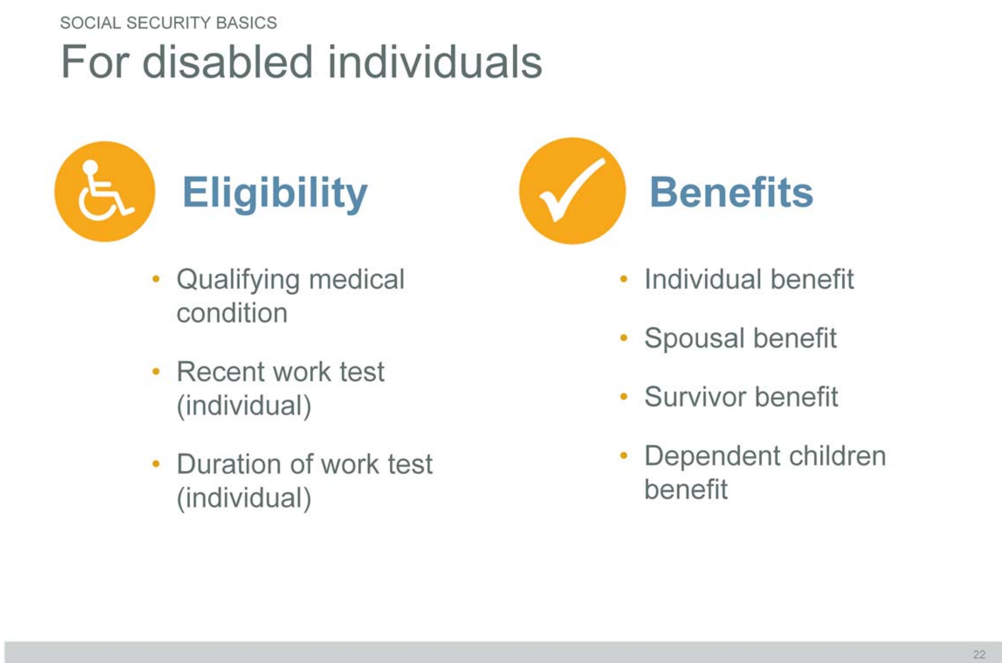
Benefit

- 50% of retired parent's PIA

- 75% of deceased parent’s PIA

Also note, if you provide care to a dependent parent, the parent may be able to collect benefits based on your record.

- Child must file for individual benefits at 62 or older.
- A dependent parent is a parent over the age of 62 receiving over 50% of support from that child.
- This has the biggest impact if the supporting child were to pass away.



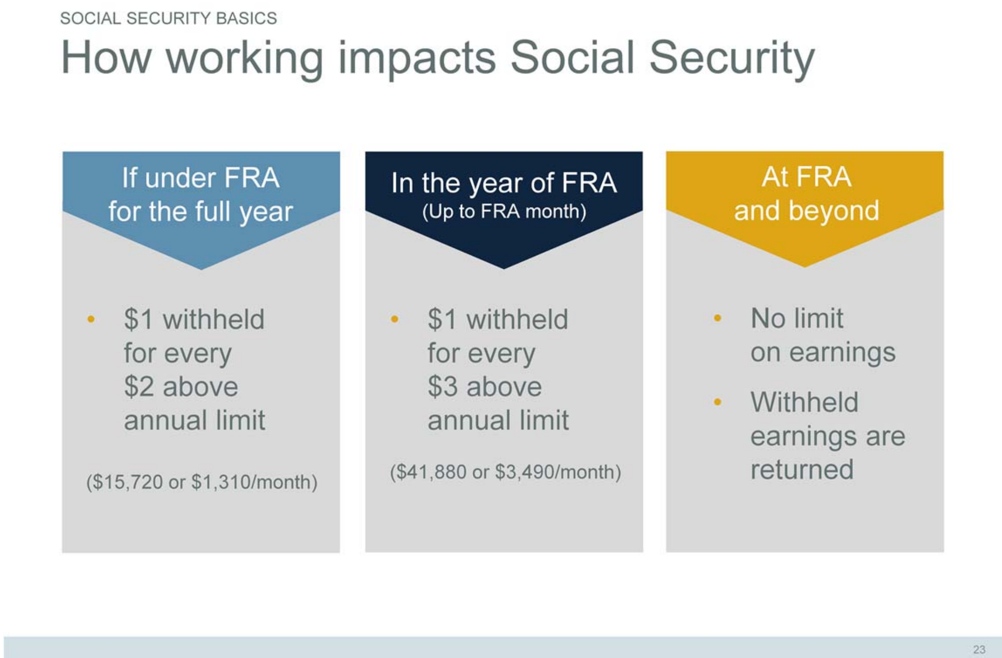

Family members who are disabled may also qualify for benefits from Social Security.

- If an income earner is disabled, benefits for the spouse may be available prior to age 50.
- Spousal and survivor benefits
- Dependent children are allowed to collect as long as disability occurred before 22

Eligibility:

- Must have a qualifying medical condition – The Social Security web site includes an extensive listing of impairments that covers a wide range of medical conditions
- Recent work test – Has the individual worked recently enough when disability occurred
- Duration of work – Has the individual worked long enough to be fully covered by Social Security benefits

Note that the Social Security disability income program (SSDI) is scheduled to run out of funds in 2016.




You may also be considering to continue to work while receiving Social Security benefits. But depending on your age, their SS benefits may be reduced.

- These benefits are not lost – rather, they are withheld until the client reaches full retirement age. At that point, SS benefits are increased to account for the amount of earned income that was withheld.

    - If under FRA for the entire year, $1 of SS benefits are withheld for every $2 of earned income above the annual limit
    - [CLICK] In the FRA year, $1 of SS benefits are withheld $1 for every $3 in earned income
    - [CLICK] In the month of FRA and beyond, SS benefits will not be reduced.

- There's a common misperception is that this withheld income due to working comes back as a lump sum. That is not correct – instead, benefits are increased to recoup this withheld income. For example, someone who filed for benefits early at 62 receives 75% of PIA then returns to work at 63 through 66, making enough that he would receive no benefits after the reduction. At FRA, the percentage of PIA would go from 75% to 93.3%.

WHY SOCIAL SECURITY IS THE CHOICE OF A LIFETIME

## Will Social Security be there for you?

### Based on current assumptions and no future changes to existing legislation[12]:

- Full benefits payable to at least 2034
- With no legislative changes, Social Security would pay 79% of benefits afterward

[12] Source: 2013 Summary Annual Report of the Social Security and Medicare Boards of Trustees

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One of the most common misconceptions about Social Security is around the solvency of the program. You may hear, “I don’t think Social Security will be around much longer,” so you may decide to take your benefits as early as possible in case your fears come into fruition.

- In 2010, Social Security paid more in benefits than contributions so there is some basis for this concern.

There’s a lot of heated debate in Washington about the future of Social Security. In the interest of focusing this presentation on what’s important for you to know about Social Security, let’s leave this discussion at what the Social Security Administration says.

Based on current assumptions and no future changes to existing legislation:

- Full benefits are payable to at least 2033 (that would include disability benefits; excluding disability would extend full benefits to 2036.)
  - The chart on this slide shows how the funding ratio reaches zero in 2033. (Note this is only for the “Old Age” and “Survivors” benefits – does not include disability)
- 77% of benefits payable afterward

Legislation is likely to change going forward, with the goal of extending the solvency of Social Security.

- Most likely change: CPI to Chained CPI for calculating annual COLAs – this policy proposal has the broadest legislative support.
  - This change, if enacted, would result in a slight reduction in future Social

Security benefit increases compared with the annual increases today's Social Security beneficiaries receive.

    - Chained CPI is expected to be 0.3% lower than CPI.

- A minor change such as this would extend the solvency of Social Security with only a minimal impact to the benefits individuals and family members receive.


Legislation is likely to change going forward, with the goal of extending the solvency of Social Security.

- [CLICK] Link cost-of-living adjustments to different inflation indexes
  - Would result in a slight reduction in future Social Security benefit increases compared with the annual increases today's Social Security beneficiaries receive.
    - Chained CPI was part of the proposal ideas but now is off the table.
  - A minor change such as this would extend the solvency of Social Security with only a minimal impact to the benefits individuals and family members receive.
- [CLICK] Increase FRA beyond 67
  - Expected to impact workers age 45 and younger
  - Would allow time to plan for later retirement

# Proposals to address Social Security solvency

**Increase or eliminate wage cap**

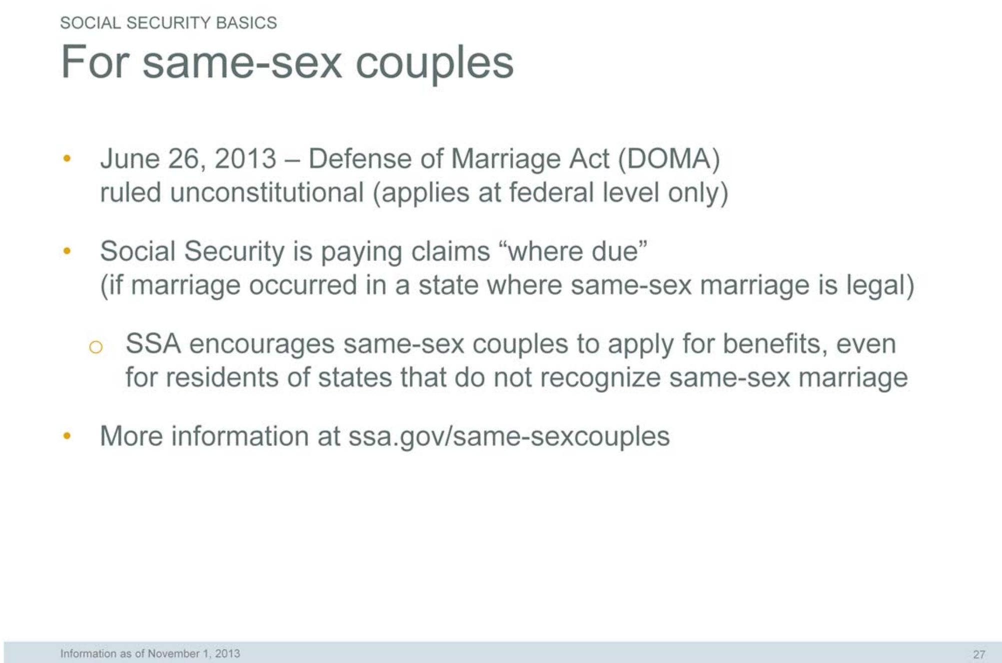
- Raises amount of earned income subject to Social Security taxes
- 2016 cap is set at earned income up to $118,500

**Increase payroll taxes**

- Currently set at 12.4% split evenly between workers and employers



- [CLICK]  Increase or eliminate wage cap on payroll taxes
    - Currently set at $117,000
    - Raises the amount of earned income that would be subject to Social Security taxes
- [CLICK]  Increase payroll taxes
    - Currently at 12.4%, split evenly between workers and employers.




You may wonder how these rules apply for same-sex couples, especially for those who live and were married in states where same-sex marriage is recognized.

The IRS recently declared that couples would be considered based on their “State of Celebration” not state of filing. So if you were married in state that recognizes same-sex marriage, you could file taxes as a couple and potential enjoy other tax and inheritance benefits.

So what can you do?

- SSA is currently developing and implementing policy and processing instructions
- SSA encouraging individuals in same-sex marriages or other relationships to apply for benefits, even for residents for states currently prohibiting same-sex marriage
- More information @ http://www.ssa.gov/same-sexcouples/

SOCIAL SECURITY BASICS

# For government employees

## Windfall elimination provision (WEP)

- Reduces individual benefit to prevent higher benefits on top of pension income
- Changes formula used to calculate PIA and reductions
  - As little as 40% of first $856 instead of 90%[10]
  - Reduction cannot be more than ½ of pension amount
  - Maximum PIA reduction for WEP for 2016 is $428

[10] Source: Social Security Administration. Based on 2013 formula

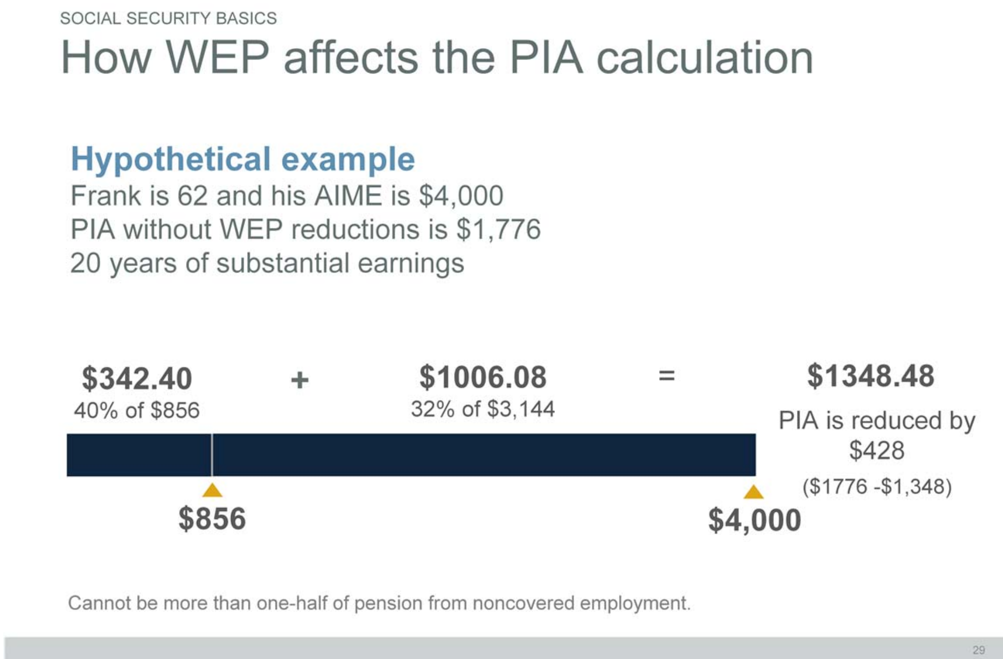


You Social Security benefit may be impacted by the Windfall Elimination Provision (WEP)

- Generally affects people who earned a pension in a job where they did not pay Social Security taxes (May be government, non-profits, international companies, etc.)
- Also worked other jobs long enough to qualify for Social Security benefits
  - If you have 30 years of earnings that are subject to FICA taxes, this provision does not apply.

- WEP reduces individual benefit to prevent higher benefits on top of pension income
- Changes formula used to calculate PIA
  - 40% of first $826 instead of 90%
  - Reduction cannot be more than ½ of pension amount

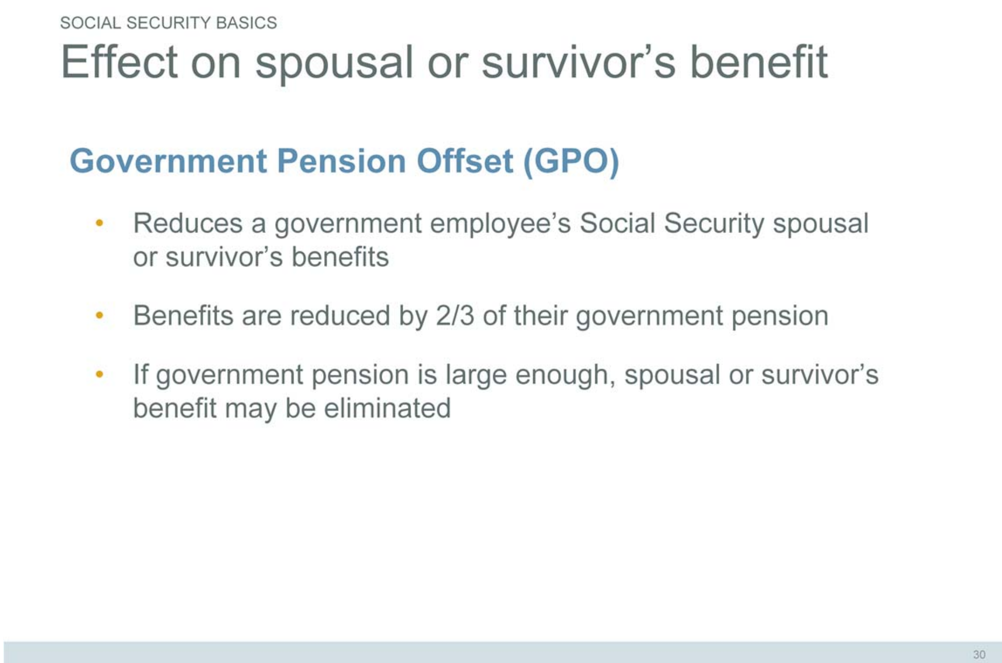
– Maximum PIA reduction for WEP in 2015 is $413




For an example, let’s look at the formula for determining Frank’s PIA and see how the Windfall Elimination Provision changes the calculation.

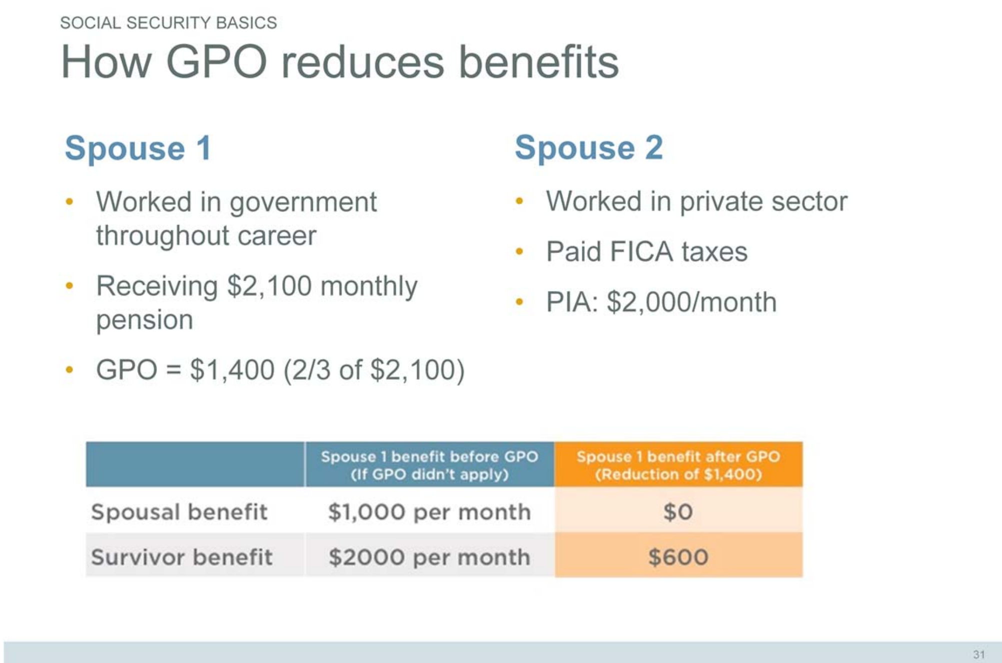
First, the assumptions:

- Frank is 62 and his AIME is $4,000
- His PIA without WEP reductions is $1,776
- He has 20 years of substantial earnings.
    - The Social Security Administration defines what constitutes “substantial earnings” per year for every year going back to 1937
    - For example, substantial earnings for 2015 is $22,050. So if Frank earned more than this amount in 2015, that year would count as a year of substantial earnings.
    - See SSA publication 05-10045 “Windfall Elimination Provision” for more information
- To calculate Frank’s PIA under WEP, the formula uses 40% of the first $856 of AIME, instead of 90%.
    - This reduces his PIA by over 30 percent.




Spouses of government employees may also be impacted by these rules, under a different provision called the Government Pension Offset (GPO)

- Reduces a government employee's Social Security spousal and survivor benefits
- Benefits are reduced by 2/3 of their government pension
- If government pension is large enough, spousal or survivor benefit may be eliminated




As an example, let's consider a couple where one spouse worked for the government and did not pay FICA taxes on earnings.

- She qualifies for a $2100 monthly pension.
- Her government pension offset would be two0thirds of this amount, or $1400 per month.

The other spouse worked in the private sector and paid FICA taxes on earnings.

- His Social Security PIA is $2,000 per month

Under normal circumstances – meaning if the GPO didn't apply to the first spouse – she would qualify for spousal benefits of $1,000 per month and survivor benefits of $2,000

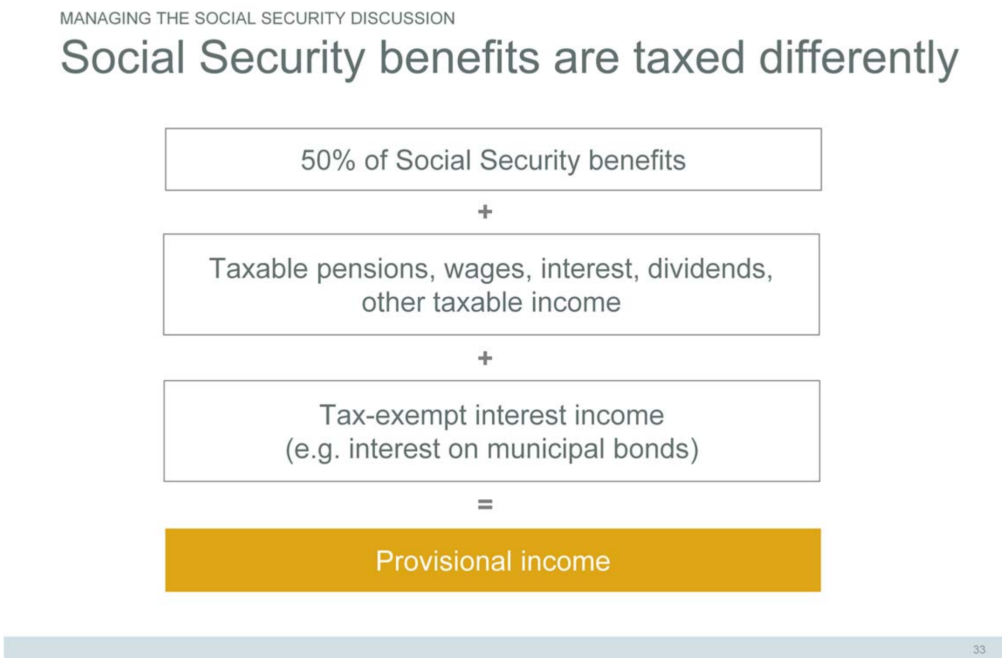
- Because GPO does apply in this situation, both her spousal and survivor benefits are reduced by $1,400 per month.
    - This results in the complete elimination of her spousal benefits
    - Survivor benefits are only $600 per month.


You may also be concerned with how Social Security benefits will influence how much tax you pay on all of your retirement income.

Social Security isn't taxed like other retirement income because a portion of it – at least 15% for everyone – is tax-free.

- Primary Retirement assets, Pensions and 401(k), are taxed much higher than Social Security
- Social Security income has advantages compared to traditional retirement income since it's only partially taxed
- Other sources of retirement income, Roth accounts and municipal bonds, are tax free with tax-free withdrawals of all earnings and principal.

It's important to consider how retirement assets are taxed when making decisions in retirement




The portion of Social Security income that is taxable varies with each individual; the amount of Social Security benefits they receive and is dependent on a person's modified adjusted gross income (MAGI) This MAGI is unique to Social Security benefit calculation and not the same as the traditional definition of MAGI.

The calculation of "provisional income" includes 50% of Social Security benefit on top of a person's modified adjusted gross income, which includes any ordinary income (earnings, interest income, short-term capital gains), dividends and long-term capital gains, and non-taxable interest.

Below is the list of items used to calculate provisional income and more details can be found in the Internal Revenue Service Publication 915, 'Social Security and Equivalent Railroad Retirement Benefits'':

**Income**
1. 50% of Social Security benefits
2. Wages, salaries, tips, etc. (Form 1040, line 7a)
3. Taxable Interest (Form 1040, line 8a)
4. Ordinary dividends (Form 1040, line 9b)
5. Taxable refunds, credits or offsets of state and local income taxes (Form 1040, line 10)
6. Alimony received (Form 1040, line 11)
7. Business income or (loss). (Form 1040, line 12)
8. Capital gain of (loss). (Form 1040, line 13)
9. Other gains (losses) (Form 1040, line 14)

10. IRA distributions (Form 1040, line 15b)
11. Pensions and annuities (Form 1040, line 16b)
12. Rental real estate, royalties, partnerships, S corporations, trusts, etc. (Form 1040, line 17)
13. Farm income or (loss) (Form 1040, line 18)
14. Unemployment compensation (Form 1040, line 19)
15. Other income (Form 1040, line 21)
16. Tax-exempt interest. (Form 1040, line 8b)

**Exclusions**
1. Adoption benefits (Form 8839, line 28)
2. Foreign earned income or housing (Form 2555, lines 45 and 50)
3. Certain income of bona fide residents of American Samoa (form 4563, line 15) or Puerto Rico

**Deductions**
1. Educator expenses (Form 1040, line 23)
2. Certain business expenses of reservists, performing artists, and fee-basis government officials (Form 1040, line 24)
3. Health savings account deduction (Form 1040, line 25)
4. Moving expenses (Form 1040, line 26)
5. Deductible part of self-employment tax (Form 1040, line 27)
6. Self-employed SEP, SIMPLE, and qualified plans (Form 1040, line 28)
7. Self-employed health insurance deduction (Form 1040, line 29)
8. Penalty on early withdrawal of savings (Form 1040, line 30)
9. Alimony paid (Form 1040, line 31a)
10. IRA deduction (Form 1040, line 32)
11. Any write-in adjustments (Form 1040 on dotted line by line 36)

MANAGING THE SOCIAL SECURITY DISCUSSION

# Tax thresholds for Social Security benefits

| Provisional income | | | | |
|---|---|---|---|---|
| **Single filers; Head of household; Qualified widower** | **Married filing jointly** | **Married filing separately, lived apart all year** | **Married filing separately, lived together at some point in the year** | **% of Social Security benefits subject to Federal income tax** |
| Equal to or less than $25,000 | Equal to or Less than $32,000 | Equal to or less than $25,000 | N/A | Zero |
| $25,001-$34,000 | $32,001-$44,000 | $25,001-34,000 | N/A | Up to 50% |
| Over $34,000 | Over $44,000 | N/A | Only option | Up to 85% |



How much of a person’s Social Security benefit that is taxable depends on their filing status and provisional income level, plus other income. Generally, the higher the total amount, the greater the taxable part of your benefits.

- No taxation on Social Security benefits for income less than $25,000 for single filers & married couples filing separately living apart all year, and less than $32,000 for married couples filing jointly
- At the upper end of the income scale, up to 85% of Social Security benefits are taxable for single filers with income over $34,000, married couples filing jointly with income over $44,000, and married couples filing separately and lived together at some point in the year
- In effect, it’s a marginal taxation of Social Security where 0% is taxed up to the threshold, than 50% - 85% can be taxed depending upon the total amount of SS benefits and income above the threshold

MANAGING THE SOCIAL SECURITY DISCUSSION

# Client concern: **Taxation**

| | Reduced benefits | Maximum benefits |
|---|---|---|
| Target pre-tax income | $90,000 | $90,000 |
| **Social Security benefits** | **$24,600** | **$43,296** |
| Traditional retirement income | $65,400 | $46,704 |
| Provisional income | $77,700 | $68,352 |
| Total taxable income<br>AGI + income after Social Security income test | $86,310 | $73,403 |

Delayed filing increases Social Security by **76%**

Taxable income decreases by **15%**

35

When filing early, in order to reach a desired income, you would have to rely on other taxable assets like 401k assets and pension income. Relying on those sources of income results in higher taxable income. Having more income come from Social Security or other tax advantageous assets reduces taxes.

In our Jim and Linda example, we have a married couple whose annual income goal in retirement is $90K.

- Filing early results in a lower annual Social Security benefit of $24,600, forcing you to draw down over $65K from an IRA account to meet the $90k income goal
- Relying more on fully taxable asset increases your Provisional Income
- If you were to delay benefits and receive $68K a year, you would only draw $46k from an IRA account to reach your desired annual income.
    - This lowers provisional income as well

Social Security is taxed at a maximum of 85% of the benefit. Amount of Social Security taxed is subject to three tests (IRS Publication 915 has a worksheet that can be used to calculate the below tests).

It is the smallest of:

1) 85% of the benefits; or

2) 50% of the combined income plus 85% of any excess combined income over the second threshold ($34,000 if single; $44,000 if married, filing jointly); or

3) 50% of the excess combined income over the first threshold ($25,000 if single; $32,000 if married, filing jointly) , plus 35% of the excess combined income over the second threshold ($34,000 if single; $44,000 if married, filing jointly).

In our married couple example the test went as follows

| | File Early | Optimize |
|---|---|---|
| SS Test 1 | **$20,910** | $36,802 |
| SS Test 2 | $40,945 | $42,347 |
| SS Test 3 | $34,645 | **$26,699** |

In our example filing early results in a higher taxable income due to a higher Modified Adjusted Gross Income for Social Security benefit taxation which increases the amount of Social Security benefits that get taxed

- Filing Early 85% of the $24,600 ($20,910 ÷ $24,600) was taxed compared to 62% of $43,296 ($26,699 ÷ $43,296) when Social Security benefit was delayed
- Social Security income increased by 76% and taxable income decreased by 15%

It is important to consider how SS filing will affect your taxable income. The filing decision can have significant implication in your taxable income in retirement.

— Making your —

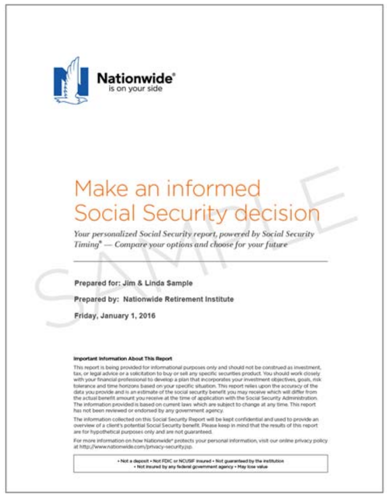
# Social Security decision


All of these many options, rules and concerns you have makes your decision on when and how to file for Social Security benefits a difficult one.

We can help make it easier to analyze all of your choices with our Social Security optimization tool.

- With our tool, you can identify optimal strategies, plus take into account other options you may want to consider
- You can receive a break-even analysis by strategy, so you can see how one strategy may provide more cumulative benefits over another
- You can also look at your Social Security income in context with all of your retirement income needs
- And spell out your personalized strategies in a report show you exactly how to file.

# Social Security Assessment



Nationwide®
is on your side

Make an informed
Social Security decision

*Your personalized Social Security report, powered by Social Security Timing® — Compare your options and choose for your future*

SAMPLE

**Prepared for: Jim & Linda Sample**

**Prepared by: Nationwide Retirement Institute**

**Friday, January 1, 2016**

**Important Information About This Report**

This report is being provided for informational purposes only and should not be construed as investment, tax, or legal advice or a solicitation to buy or sell any specific securities product. You should work closely with your financial professional to develop a plan that incorporates your investment objectives, goals, risk tolerance and time horizons based on your specific situation. This report relies upon the accuracy of the data you provide and is an estimate of the social security benefit you may receive which will differ from the actual benefit amount you receive at the time of application with the Social Security Administration. The information provided is based on current laws which are subject to change at any time. This report has not been reviewed or endorsed by any government agency.

The information collected on this Social Security Report will be kept confidential and used to provide an overview of a client's potential Social Security benefit. Please keep in mind that the results of this report are for hypothetical purposes only and are not guaranteed.

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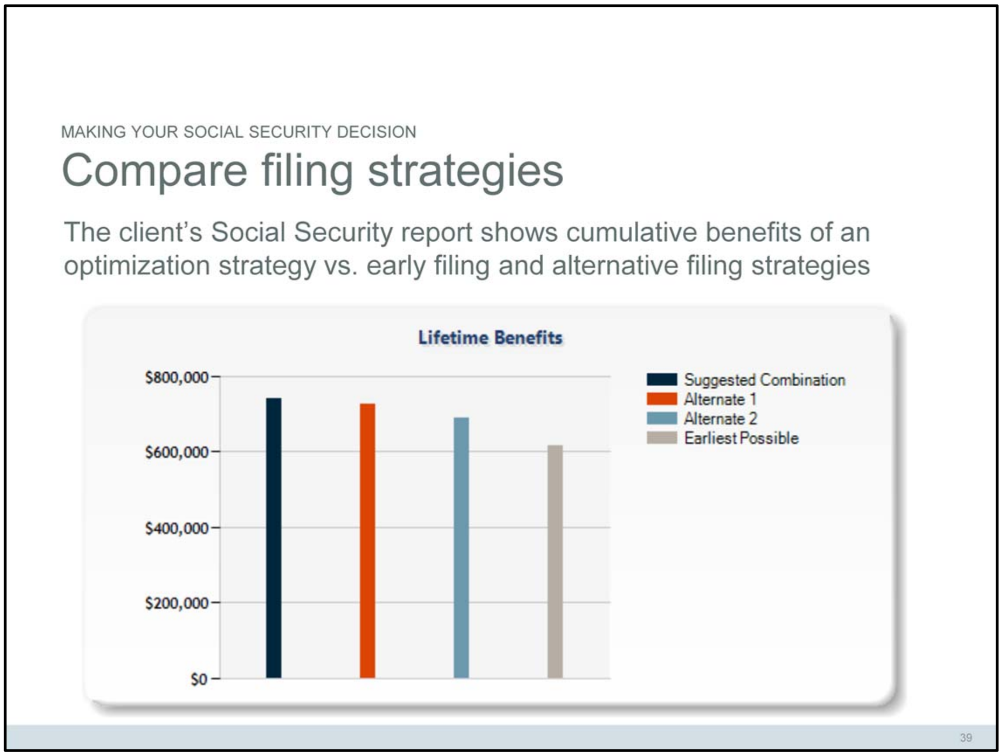


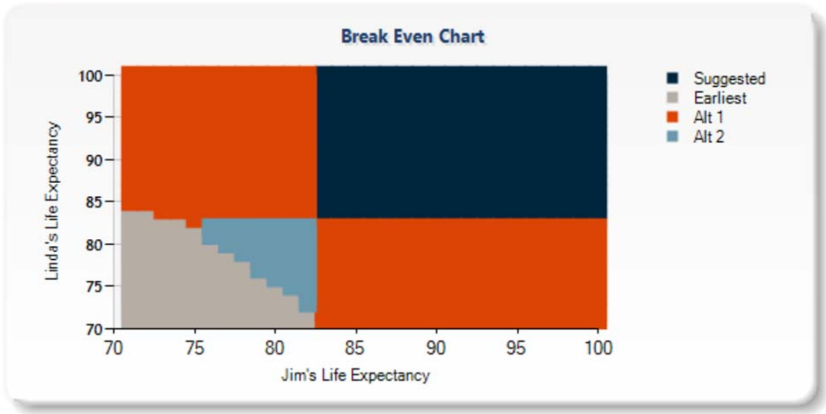

Based on inputs you provide, the tool will provide an optimal and earliest filing strategy.

- In the bar chart, you and your Retirement Specialist can compare strategies in terms of cumulative benefits, with blue representing the optimal filing strategy.
- Cumulative benefits shown in this chart are present value.
- The black bar shows cumulative benefits of the earliest filing strategy.

MAKING YOUR SOCIAL SECURITY DECISION

## Analyze break-even points

Illustrates which of the outlined strategies provides the best outcome at any given set of mortality assumptions for SS claimants

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For married couples, you can also analyze your break-even points by optimal, earliest and personalized strategy, based on life expectancy.

- The blue area in this analysis shows how the optimal strategy would provide the highest cumulative income if you live past 85.
- The black/darker area represents where the earliest filing strategy would provide the highest cumulative benefits
- The orange area highlights where a personalized strategy (neither earliest or latest filing strategy) would provide the highest cumulative benefits based on life expectancy.

# Your suggested Social Security Strategy

The expected lifetime family benefit using this strategy is: **$740,623**

*Note that this illustration is for educational purposes only.*

### Jim

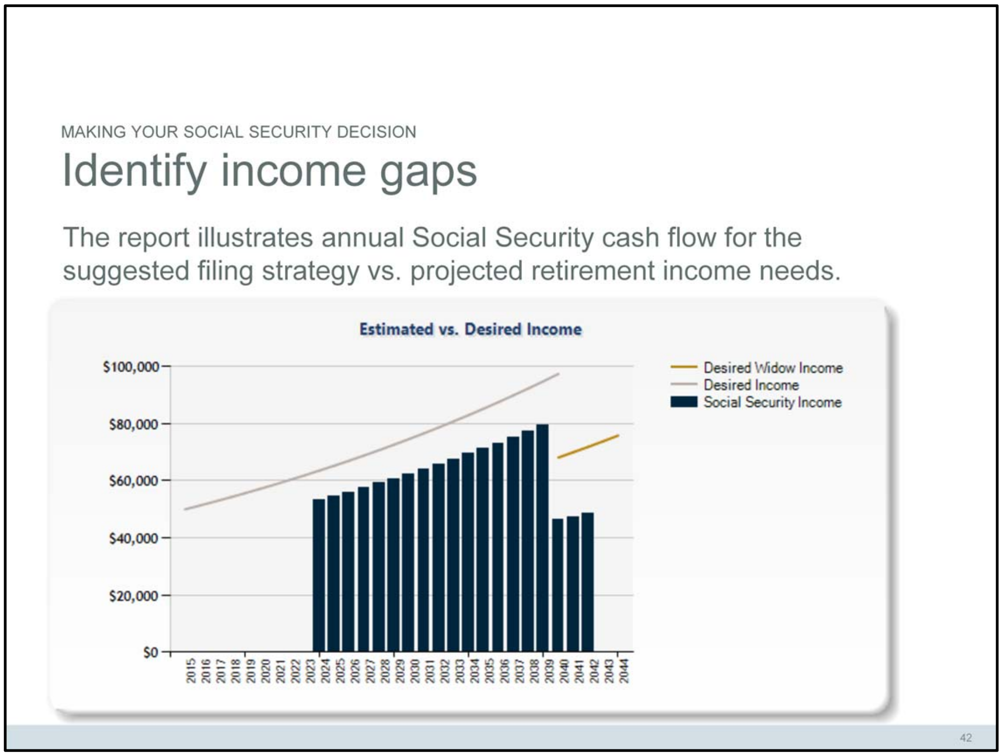
- **File a standard application for benefits at your age 70 years.**
  Your approximate monthly benefit would be: **$2,519**.

### Linda

- **File a standard application for benefits at your age 70 years.**
  Your approximate monthly benefit would be **$1,912.**

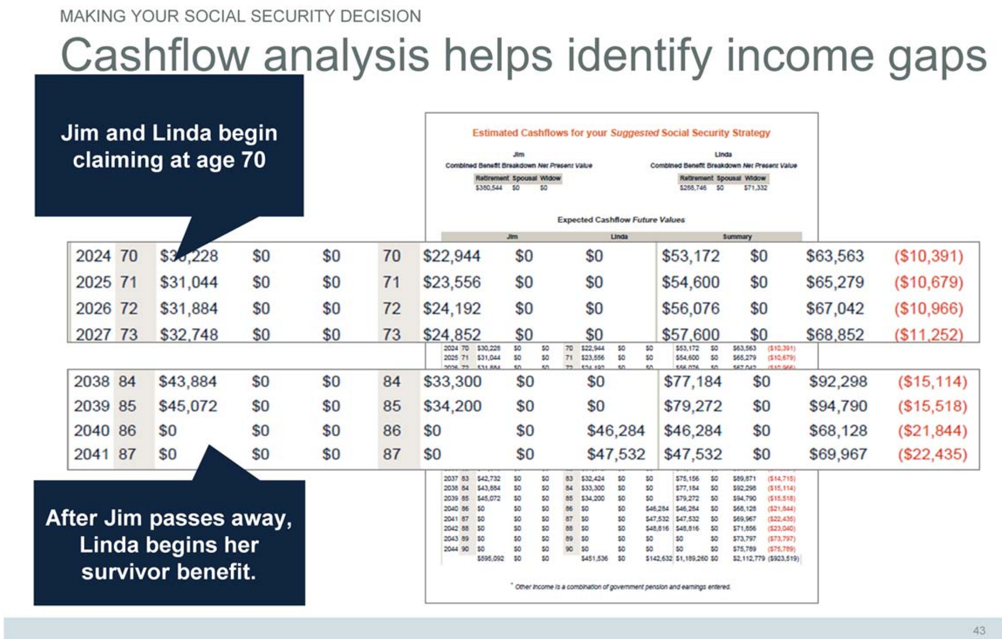


Please note that the Social Security report indicates the present value of the cumulative benefit dollar amounts. In the cash flows in the Social Security report represent the future cumulative value of the benefits.




The tool will also graph how your expected Social Security income will cover your desired retirement expenses.

- For this analysis, you can discuss with your Retirement Specialist how other parts of your retirement income plan can help close the gap to your desired retirement income needs.




The report goes one step further with the Social Security income projection by presenting the actual numbers so you can see in dollars-and-cents terms what their estimated Social Security income is and what their projected retirement income gap would be.

It shows how life events and changes in filing status affects Social Security income and the retirement income gap from one year to the next.

- (Click) When Jim and Linda file at age 70 and begin taking their delayed benefits, The table shows their total income from Social Security shows their retirement income gap.

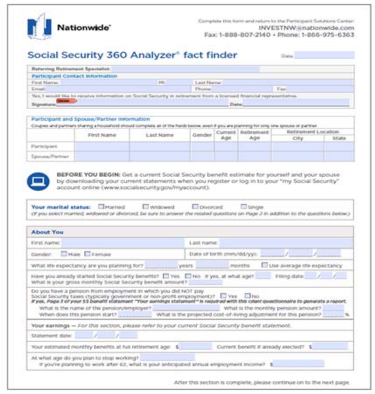
- (Click) After Jim passes away, Linda begins her survivor benefit. The report shows the dollar impact this has on Linda’s income and what she would need from other income sources to make up that gap.

MAKING YOUR SOCIAL SECURITY DECISION

# Social Security client questionnaire

Helps gather relevant client information to prepare a filing strategy comparison

- Marital status
- Expected benefit amount
- Life expectancy
- Planned retirement date
- Desired retirement income
- Retirement goals, concerns, etc.


Nationwide®

Complete this form and return to the Participant Solutions Center:
INVESTNW@nationwide.com
Fax: 1-888-807-2140 • Phone: 1-866-975-6363

Social Security 360 Analyzer® fact finder

Date:

Participant Contact Information

First Name: MI: Last Name:

Email: Phone: Fax:

Yes, I would like to receive information on Social Security in retirement from a licensed financial representative.

Signature: Date:

Participant and Spouse/Partner Information

Couples and partners sharing a household should complete all of the fields below, even if you are planning for only one spouse or partner.

| | First Name | Last Name | Gender | Current Age | Retirement Age | Retirement Location City | State |
|---|---|---|---|---|---|---|---|
| Participant | | | | | | | |
| Spouse/Partner | | | | | | | |

BEFORE YOU BEGIN: Get a current Social Security benefit estimate for yourself and your spouse by downloading your current statements when you register or log in to your "my Social Security" account online (www.socialsecurity.gov/myaccount).

Your marital status: ☐ Married ☐ Widowed ☐ Divorced ☐ Single

(If you select married, widowed or divorced, be sure to answer the related questions on Page 2 in addition to the questions below.)

About You

First name: Last name:

Gender: ☐ Male ☐ Female Date of birth (mm/dd/yy): / /

What life expectancy are you planning for? years months ☐ Use average life expectancy

Have you already started Social Security benefits? ☐ Yes ☐ No If yes, at what age? Filing date: / /

What is your gross monthly Social Security benefit amount?

Do you have a pension from employment in which you did NOT pay Social Security taxes (typically government or non-profit employment)? ☐ Yes ☐ No

What is the name of the pension/employer? What is the monthly pension amount?

When does this pension start? What is the projected cost-of-living adjustment for this pension? %

Your earnings — For this section, please refer to your current Social Security benefit statement.

Statement date: / /

Your estimated monthly benefits at full retirement age: $ Current benefit if already elected? $

At what age do you plan to stop working?

If you're planning to work after 62, what is your anticipated annual employment income? $

After this section is complete, please continue on to the next page.



No client (single or married) will fit easily into one scenario that allows for simple planning for their Social Security decision. There are many ways to help them take advantage of the different Social Security rules out there.

MAKING YOUR SOCIAL SECURITY DECISION

# The choice of a lifetime

- When and how you file for Social Security is an important decision
- Learn how to claim benefits for other family members and how to put the filing rules to work
- Consider your filing decision in the big picture of your overall retirement income plan



Your Social Security decision is an important one, and how you choose to file matters.

- No matter what your income level is, Social Security benefits are a significant source of retirement income
- And the choices you make about how to file can have a lasting impact on your financial situation in retirement
- Your financial advisor can help you make a Social Security decision that fits within your overall retirement income plan.
    - Know how to use the power of delaying and how to put the spousal and other rules to work in order to optimize benefits and provide some income protection for a surviving spouse.