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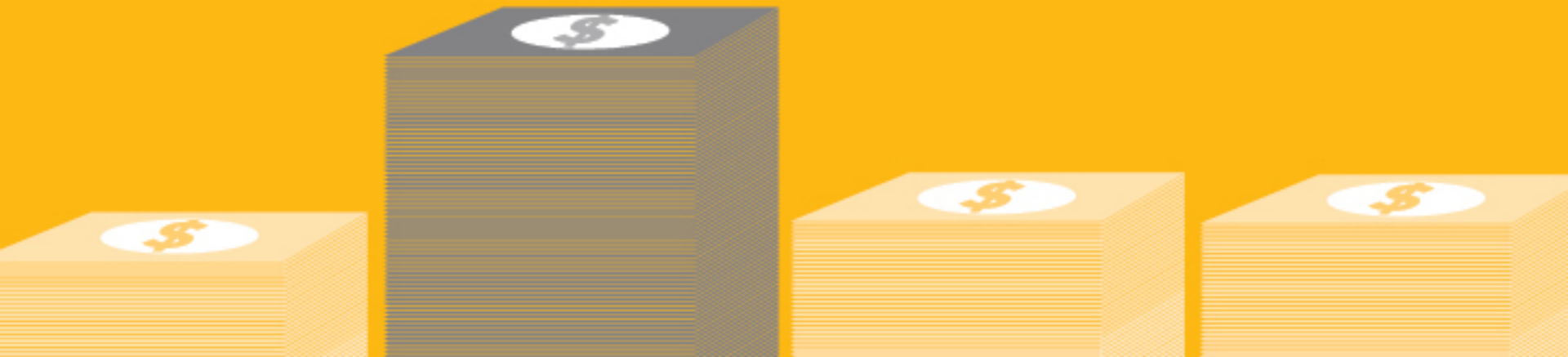
Social Security

The choice of a lifetime



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• Not insured by any federal government agency • May lose value •

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NRM-13476AO.3 (07/16)

Today’s agenda

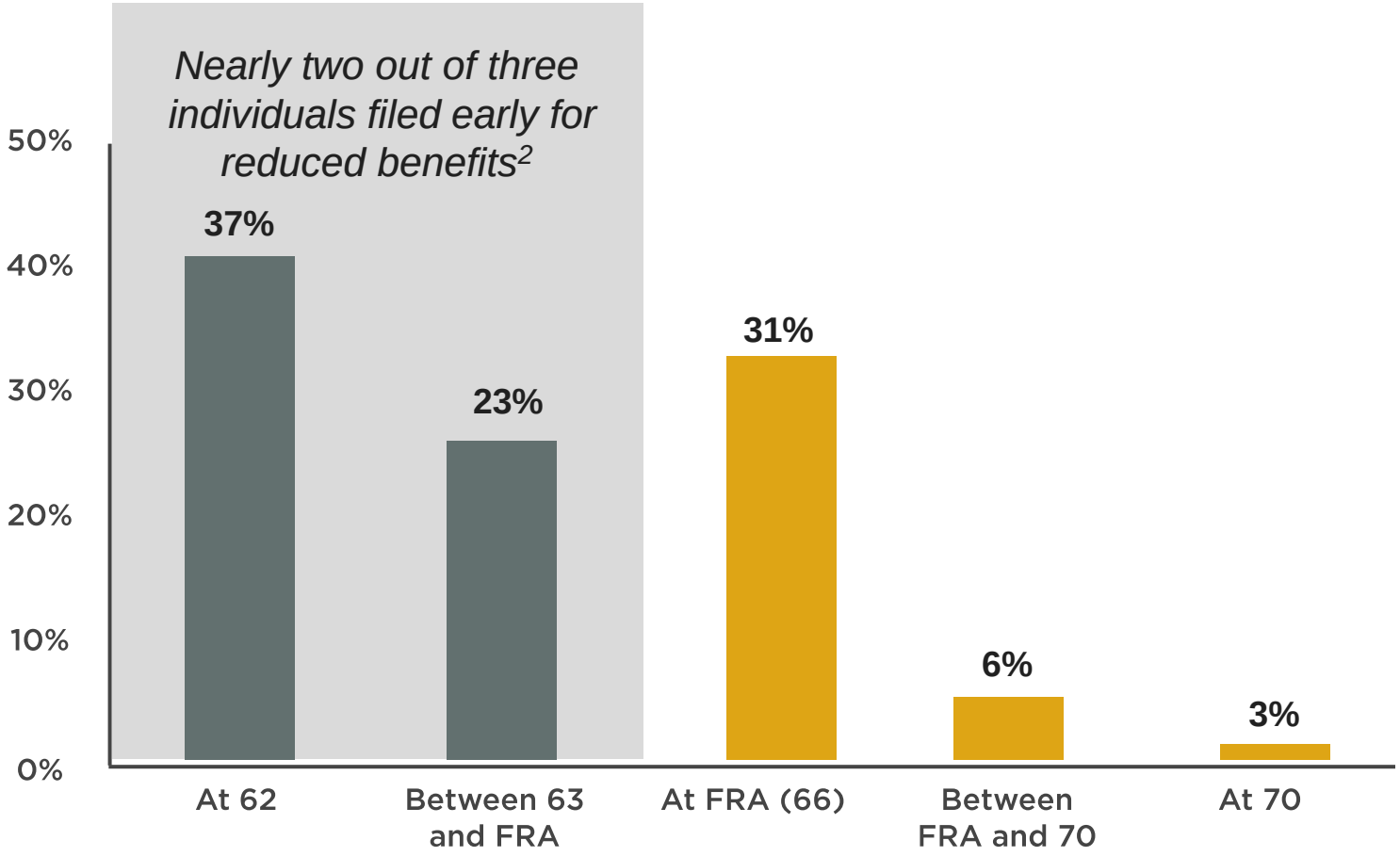
- Social Security—The choice of a lifetime
- Social Security basics
  - Bipartisan Budget Act implications on filing strategies
- Making your Social Security decision

Social Security

— The choice of a lifetime —

Most file at the earliest possible time

New Social Security claimants in a calendar year[1]



[1] **Source: SS Supplement 2015. Table 6.B5, Social Security Administration, 2014 calendar year.** [2] FRA = Full retirement age. For this data, FRA is 66.

Changes to filing options

- On November 2nd, the Bipartisan Budget Act of 2015 was signed by the President, causing major changes to filing options
- The filing restricted option is being phased out; when an individual files, he or she is only eligible for the higher of his or her own benefits, spousal or divorced benefits
- After April 29th 2016, file and suspend no longer allows spousal or dependent benefits to be paid while the worker earns delayed retirement credits
- Retroactive lump sum request is no longer available

Jim and Linda's Suggested Option Prior to April 29, 2016 Rule Change

Meet Married Couple Jim & Linda

Jim is 66 and Linda is 64

$1,543
Jim's SS benefit at FRA

$1,171
Linda's SS benefit at FRA

This example is hypothetical and for illustrative purposes only

$163,536
Cumulative benefit lost by filing early

Cumulative benefit if both file at 62[3]

$895,426

Cumulative benefit if both optimize SS benefits[3]

$1,058,962

[3] Figures as shown represent future-value and assume average life expectancy of 86 for men and 89 for women and 2.7% annual cost-of-living adjustments (COLA).

An Option for Jim and Linda After the April 29, 2016 Rule Change

Meet Married Couple Jim & Linda

Jim is 66 and Linda is 64

$1,543
Jim's SS benefit at FRA

$1,171
Linda's SS benefit at FRA

This example is hypothetical and for illustrative purposes only

$143,774
Cumulative benefit lost by filing early

Cumulative benefit if both file at 62[4]

$895,426

Cumulative benefit if Jim files at 70 and Linda files restricted at 68[4]

$1,039,200

[4] Figures as shown represent future-value and assume average life expectancy of 85 for men and 88 for women and 2.5% annual cost-of-living adjustments (COLA).

Another Option for Jim and Linda After the April 29, 2016 Rule Change

Meet Married Couple Jim & Linda

Jim is 66 and Linda is 64

$1,543
Jim's SS benefit at FRA

$1,171
Linda's SS benefit at FRA

This example is hypothetical and for illustrative purposes only

$77,916
Cumulative benefit lost by filing early

Cumulative benefit if both file at 62[5]

$895,426

Cumulative benefit if Jim files at 66 and Linda files restricted at 66[5]

$973,342

[5] Figures as shown represent future-value and assume average life expectancy of 85 for men and 88 for women and 2.5% annual cost-of-living adjustments (COLA).

Comparing options

Jim files and suspends; Linda files restricted at age 66

Cumulative benefits: $1,058,962

Jim files and suspends; Linda files restricted at 68

Cumulative benefits: $1,039,200 **2%** less in benefits

Jim files at 66; Linda files restricted at 66

Cumulative benefits: $973,342 **8%** less in benefits

Both file early at 62

Cumulative benefits: $895,426 **18%** less in benefits

Will Social Security be there for you?

Based on combined trust fund reserves and current assumptions[6]:

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

[6] Source: 2016 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds.

Proposals to address Social Security solvency

Link COLAs to different inflation indexes

- May increase solvency without significant effect on most Americans
- Current retirees will see smaller annual benefit increases

Increase FRA beyond 67

- Expected to impact workers age 45 and younger to allow time to plan for retiring later

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

WHY SOCIAL SECURITY IS THE CHOICE OF A LIFETIME

Will you be there for Social Security?

	AGE 65	AGE 65
50% chance of reaching age[7]	86	89
25% chance of reaching age[7]	93	95

For married couples, there is a 50% chance one spouse will reach age 93

[7] 2015 LIMRA Retirement Income Reference Book.

Social Security

— The basics —

What does Social Security offer?

Old Age, Survivors and Disability Insurance (OASDI)

Guaranteed lifetime income

Survivor benefits

Indexed to inflation

Preferential tax treatment

Social Security Act of 1935

- Designed to help older Americans living in poverty during the Great Depression
- Never meant to be sole source of retirement income

Ida May Fuller
First recipient of a monthly Social Security check (1940)

Primary Insurance Amount (PIA)

- Amount received each month if benefits start at full retirement age (FRA)
- 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 average monthly earnings
  - Higher earners receive a smaller percentage than low-wage earners
  - Maximum PIA for 2016 is $2,639
- Social Security statements available on mySocialSecurity (Sign up at ssa.gov/myaccount)

SOCIAL SECURITY BASICS

Full Retirement Age (FRA)

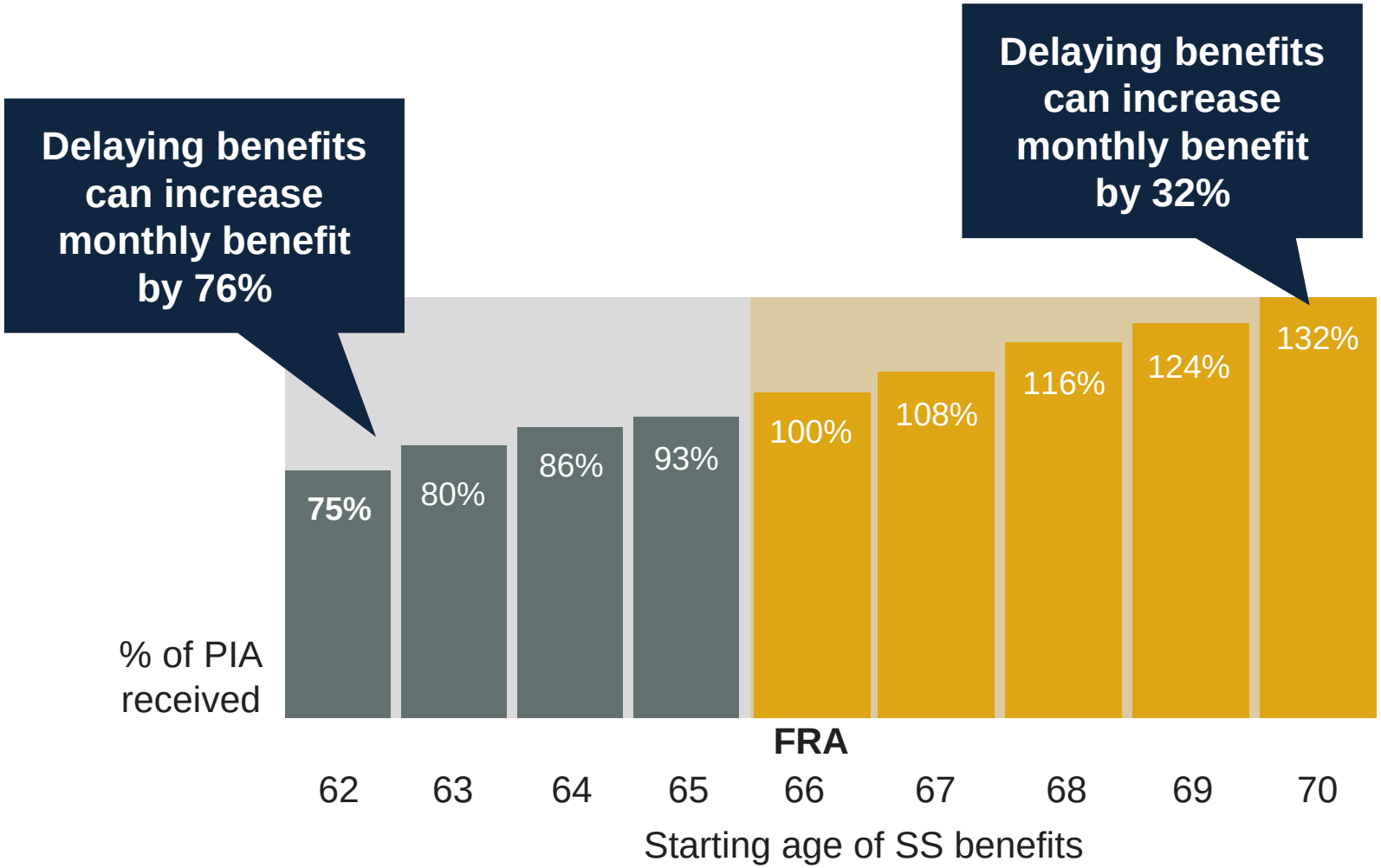
Early				FRA		Delay		
62	63	64	65	66	67	68	69	70

Eligible for 100% of benefits

Birth Year	FRA
1943 – 1954	66
1955	66 + 2 mos.
1956	66+ 4 mos.
1957	66 + 6 mos.
1958	66 + 8 mos.
1959	66 + 10 mos.
1960 – later	67

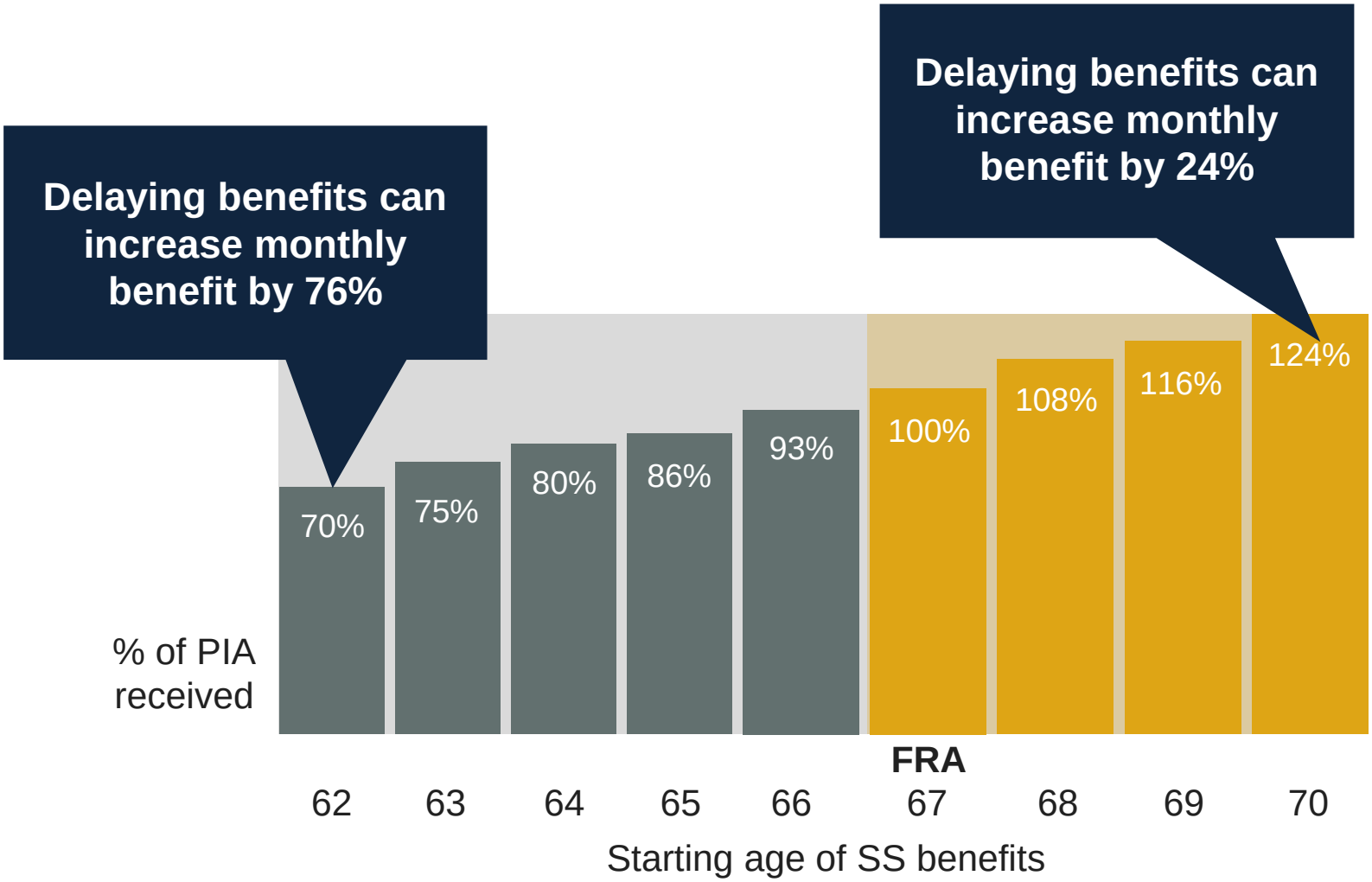
SOCIAL SECURITY BASICS

Early and delayed filing affects monthly benefit



SOCIAL SECURITY BASICS

Early and delayed filing affects monthly benefit



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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

Rule change from Section 831(b)

- Voluntary suspension will now require suspension of the wage earner's 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

Complexity of understanding the rules increases

Individual date of birth	Grandfathered	May 1st 1950	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 prior to **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% **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 **Linda** files restricted to collect spousal benefit and allows her benefit to grow to 8%	**Jim** files for his benefits **Linda** files for her benefits and receives spousal access, if spousal benefit is greater than hers

Filing rules for different situations

Surviving spouses

Spouses

Divorced spouses

Dependent children

Disabled individuals

Impact on filing situations

Spouses

Dependent children

- These two groups will be impacted by changes to the Social Security rules
- The primary beneficiary must begin benefits before dependents can collect benefits
- If the primary beneficiary voluntarily suspends benefits, then all dependent benefits are also suspended
- Filing options for survivor’s benefits do not change

Spousal filing rules

Eligibility

- Eligible at 62[8]
- Married for at least one year
- One spouse must file for the other to claim benefits

Benefits

- **Up to 50%** of spouse's PIA

[8] Filing from 62 and up to FRA will permanently reduce monthly benefits.

For surviving spouses

Eligibility

- Married for at least 9 months
- Benefits can be taken as early as age 60[9]
- Currently widowed or remarried after age 60

Benefits

- Up to spouse's PIA including delayed retirement credits earned
- Survivor benefits can be received independent of individual benefits

[9] Filing from 60 and up to FRA will permanently reduce monthly benefits.

For divorced spouses

Eligibility

- Married for at least 10 years
- Currently unmarried
- Ex-spouse does not have to file beyond two years after divorce

Benefits

- Spousal, then survivor benefits
- No impact on ex-spouse’s benefit
- Not subject to the family maximum

For dependent children

Eligibility

- Dependent under age 18
- Disabled dependents if disability occurred before age 22

Benefits

- 50% of parent's PIA
- 75% of deceased's PIA

For disabled individuals

Eligibility

- Qualifying medical condition
- Recent work test (individual)
- Duration of work test (individual)

Benefits

- Individual benefit
- Spousal benefit
- Survivor benefit
- Dependent children benefit

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 2015 formula.

Effect on spousal or survivor's benefit

Government Pension Offset (GPO)

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

How GPO reduces benefits

Spouse 1

- Worked in government throughout career
- Receiving $2,100 monthly pension
- GPO = $1,400 (2/3 of $2,100)

Spouse 2

- Worked in private sector
- Paid FICA taxes
- PIA: $2,000/month

	Spouse 1 benefit before GPO (if GPO didn't apply)	Spouse 1 benefit after GPO (reduction of $1,400)
Spousal benefit	$1,000 per month	$0
Survivor benefit	$2,000 per month	$600

For same-sex couples

- On June 26, 2015, the Supreme Court issued a decision in Obergefell v. Hodges, holding that same-sex couples have a constitutional right to marry in all states
- Same-sex couples should apply for benefits even if not sure if eligible
- More information at socialsecurity.gov/people/same-sexcouples

SOCIAL SECURITY BASICS

How working impacts Social Security

If under FRA for the full year

- $1 withheld for every $2 above annual limit

($15,720 or $1,310/month)

In the year of FRA (Up to FRA month)

- $1 withheld for every $3 above annual limit

($41,880 or $3,490/month)

At FRA and beyond

- No limit on earnings
- Withheld earnings are returned

— Making your —

Social Security Decision

Taxation

Taxable retirement income	Partially taxable retirement income	Tax-free retirement income
Pension Income	**Social Security – Up to 85% taxed**	Roth IRAs and Roth 457(b)s
Traditional Retirement accounts (457(b), IRA)	Immediate annuity income	Interest from municipal bonds
Interest and dividend income	Cash-value of life insurance	Loans from life insurance policies

Please note that Nationwide does not provide legal, tax or accounting advice. You should consult with your accounting or tax professional for guidance regarding your specific financial situation.

Taxation

	Reduced benefits	Maximum benefits
Target pre-tax income	$50,000	$50,000
Social Security benefits	**$24,426**	**$42,980**
Traditional retirement income	$25,574	$7,020
Provisional income	$37,787	$28,510
Total taxable income AGI + income after Social Security income test	$2,894	$0

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

Taxable income decreases by **100%**

Simplifying Social Security decisions

Nationwide's Social Security 360 Analyzer® tool

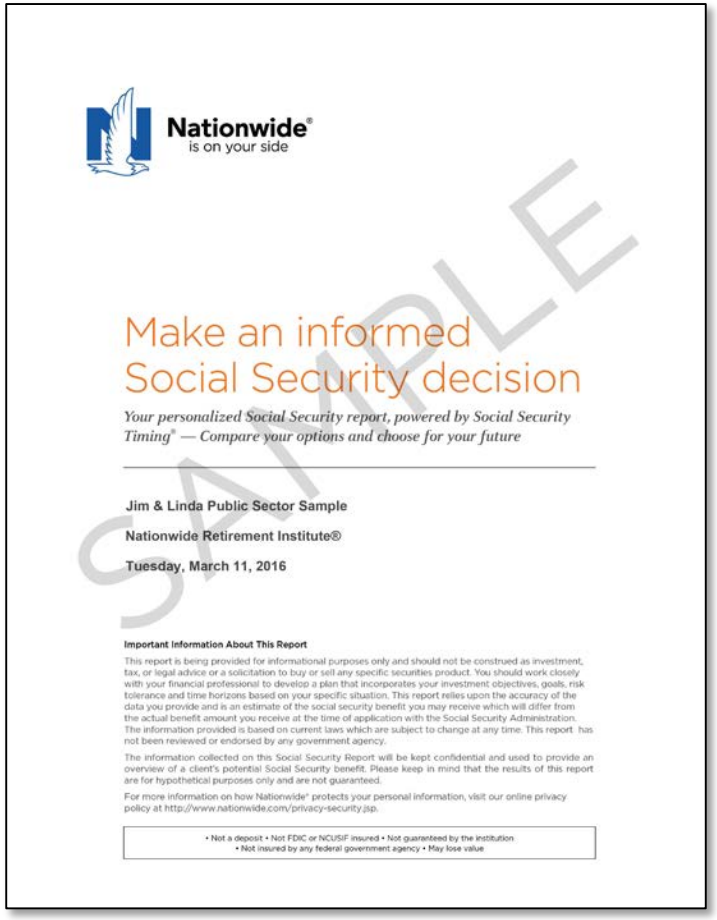
- Identifies optimal filing methods and allows you to adjust parameters to compare different strategies
- Provides instructions on how to file
- Helps you integrate Social Security into your comprehensive retirement income plan

Social Security Assessment

This report is 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.

MAKING YOUR SOCIAL SECURITY DECISION

Social Security Assessment



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SAMPLE

Make an informed Social Security decision

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

Jim & Linda Public Sector Sample

Nationwide Retirement Institute®

Tuesday, March 11, 2016

Important Information About This Report

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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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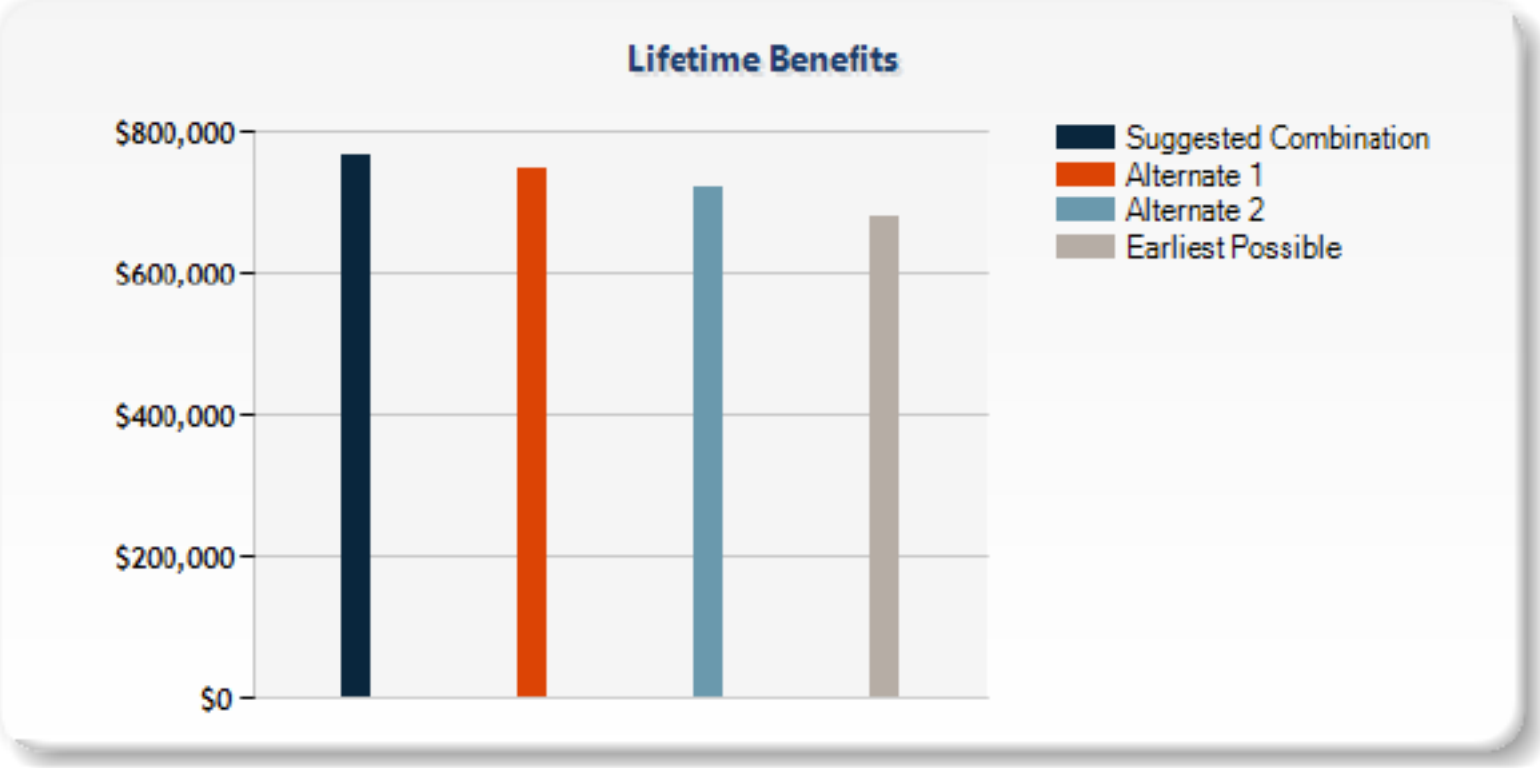
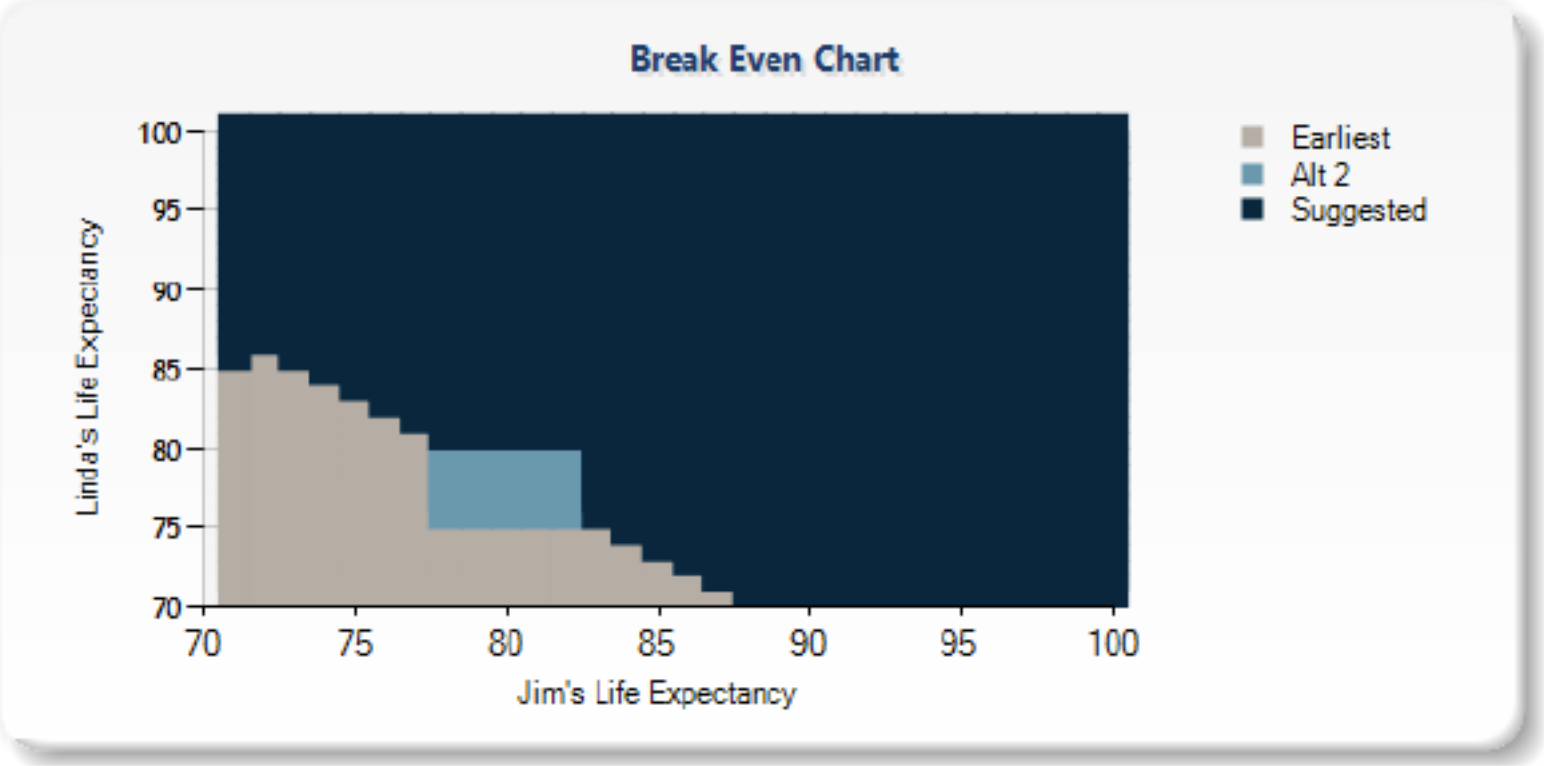
Compare filing strategies

The client's Social Security report shows cumulative benefits of an optimization strategy vs. early filing and alternative filing strategies



Analyze break-even points

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



Your *Second Alternate* Social Security Strategy

The expected lifetime family benefit using this strategy is: **$973,342**

Note that this illustration is for educational purposes only.

Jim

- **File a standard application for benefits at 66 years, 2 months**

Your approximate monthly benefit would be: **$1,563**.

Linda

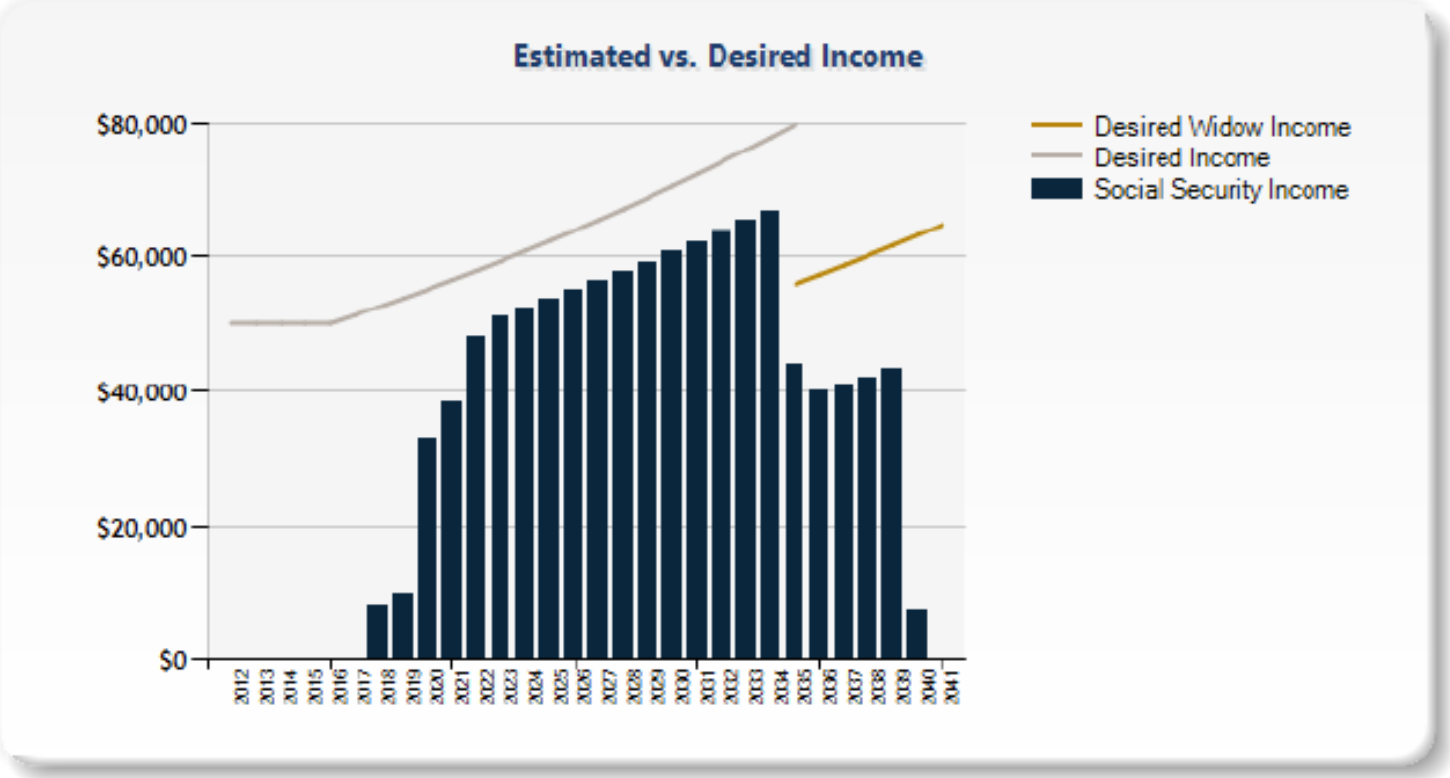
- **Files a restricted application for spousal benefits at your age 66 years.**

Your approximate monthly benefit would be **$810**

MAKING YOUR SOCIAL SECURITY DECISION

Identify income gaps

The report illustrates annual Social Security cash flow for the suggested filing strategy vs. projected retirement income needs.



Cashflow analysis helps identify income gaps

Jim and Linda both claim their own benefits at age 70

Estimated Cashflows for your *Suggested* Social Security Strategy

Jim				Linda			
Combined Benefit Breakdown *Net Present Value*				Combined Benefit Breakdown *Net Present Value*			
Retirement	Spousal	Widow		Retirement	Spousal	Widow	
$356,425	$0	$0		$240,981	$37,001	$122,113	

Expected Cashflow *Future Values*

	Jim				Linda			Summary		
2020	7[illegible]	$20,700	$0	$0	68	$0	$10,212	$0	$30,912	$55,190	($24,278)
2021	71	$21,216	$0	$0	69	$0	$10,464	$0	$31,680	$56,570	($24,890)
2022	72	$21,744	$0	$0	70	$17,920	$1,788	$0	$41,452	$57,984	($16,532)
2023	73	$22,296	$0	$0	71	$22,044	$0	$0	$44,340	$59,434	($15,094)
2034	84	$29,244	$0	$0	82	$28,908	$0	$0	$58,152	$77,982	($19,830)
2035	85	$4,996	$0	$0	83	$4,938	$0	$24,980	$34,914	$55,952	($21,038)
2036	86	$0	$0	$0	84	$0	$0	$30,720	$30,720	$57,351	($26,631)
2037	87	$0	$0	$0	85	$0	$0	$31,488	$3[illegible]	$58,785	($27,297)
2036	86	$0	$0	$0	84	$0	$0	$40,020	$40,020	$57,351	($17,331)
2037	87	$0	$0	$0	85	$0	$0	$41,016	$41,016	$58,785	($17,769)
2038	88	$0	$0	$0	86	$0	$0	$42,048	$42,048	$60,255	($18,207)
2039	89	$0	$0	$0	87	$0	$0	$43,092	$43,092	$61,761	($18,669)
2040	90	$0	$0	$0	88	$0	$0	$7,362	$7,362	$63,305	($55,943)
		$465,530	$0	$0		$326,630	$40,524	$206,078	$1,058,962	$1,754,701	($695,739)

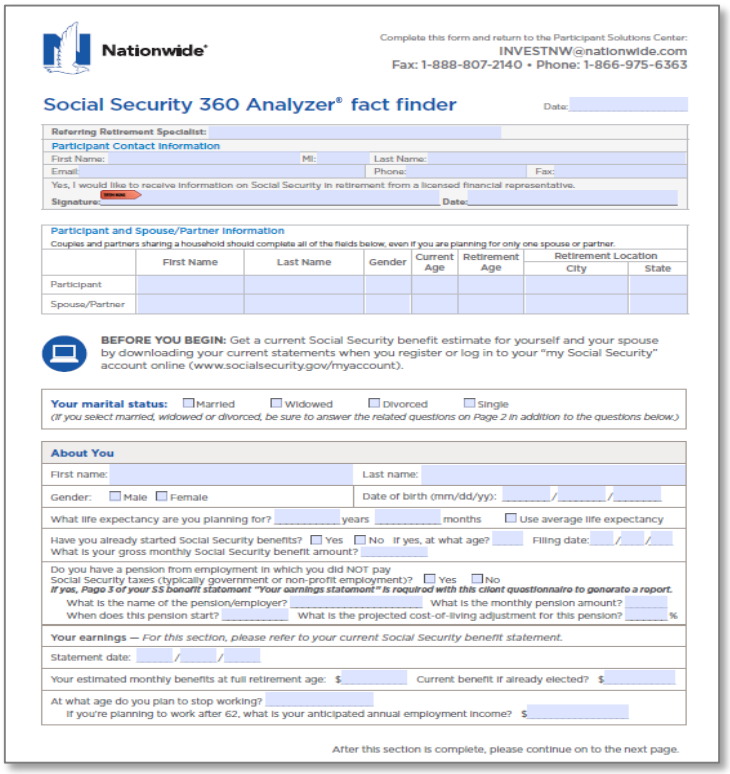
4

After Jim passes away, Linda begins her survivor benefit.

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.



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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:

Referring Retirement Specialist:

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
If yes, Page 3 of your SS benefit statement "Your earnings statement" is required with this client questionnaire to generate a report.
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.

Social Security client questionnaire

About You

About your spouse

If you're widowed

To determine survivor benefits, if eligible, you will need proof of marriage and death to retrieve benefits for a deceased spouse when you visit your local SSA office.

If you're divorced

You may be eligible for benefits based on an ex-spouse's record, if you were married to that spouse for at least 10 years. You will need proof of marriage and divorce to retrieve information and benefits for an ex-spouse when you visit your local SSA office.

What's next?

Bring your completed questionnaire along with your Social Security earnings statement to your next meeting with your financial advisor. You may also be eligible for additional benefits under special circumstances. Talk with your advisor about your individual family situation to see if these situations pertain to you.

Your current benefit if already elected? $_____ What is your desired monthly pre-tax household income after the death of one spouse? $_____

At what age does your ex-spouse plan to claim benefits? _____ years _____ months

What monthly benefit amount would you receive if you elect spousal benefits at your full retirement age (or soonest available if you are more than 6 years older than your ex-spouse)? $_____

At what age do you plan to stop working? _____

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

At what age do you plan to stop working? _____

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

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

Three steps in Social Security planning

- Get a good understanding of the basics of Social Security
- Make an appointment to discuss your Social Security options
- Complete a Social Security questionnaire in advance of the meeting