RETIREMENT'S KNOWN UNKNOWNS

SOCIAL SECURITY

For most Americans, Social Security is a retirement-income cornerstone. It's a rare asset, a guaranteed income source that keeps up with inflation. Deciding when to start collecting those benefits can help define how comfortably you spend your retirement years and how much you leave behind for loved ones.

With people living longer today, it's smart to take a long-term view of retirement planning. Social Security rules are complicated; you should get professional guidance to make the most of your benefit, no matter how well your finances are situated. As you take your first step toward making an informed decision, consider the following:

HOW MUCH MONEY ARE WE TALKING ABOUT?

Based on current laws, the maximum Social Security benefit for someone reaching full retirement age in 2016 is $2,639 per month. Assuming that you start collecting at age 66 and live for another 20 years, your lifetime benefit will total around $825,000, factoring in cost-of-living adjustments (COLAs). If you live another 30 years, your lifetime benefit will total $1.4 million. That's no small sum of money!

HOW IS MY BENEFIT CALCULATED?

Social Security calculates your average monthly benefit—officially known as your Primary Insurance Amount (PIA). It's based on the average of your best 35 years of employment earnings, adjusted for inflation. Your benefit is the amount you'll receive at your full retirement age (*Display, right*).

If you didn't work a full 35 years, zeros will be substituted for those missing years. If you keep working after reaching full retirement age, your benefit will be recalculated each year you continue to work. Social Security benefits are also automatically adjusted each year for COLAs, which are either positive or zero. COLAs are based on the Consumer Price Index (CPI) and have averaged about 2% over the past 10 years—there was no increase for 2016.

IS IT BETTER TO COLLECT EARLY OR TO WAIT?

There's no one-size-fits-all answer to that question. The decision should be based on your full retirement picture. Choosing the right strategy can have a big, long-term financial impact on your retirement plans.

How much you get in your monthly Social Security check depends on when you start withdrawing funds. You're eligible to receive benefits at age 62, but if you do, it will permanently lock you into a reduced annual payout equal to 75% of what your benefit would have been if you waited until full retirement age. That creates a reduced annual benefit of around $24,000 for workers who've paid the maximum amount into the system since age 22. That's one-quarter less than what you'd receive by waiting until full retirement age (*Display, next page*).

However, by delaying benefits past full retirement age (to a maximum of age 70), you earn "delayed retirement credits" each year you wait. With these, you can take 132% of your full benefit at age 70—a higher annual payout of around $42,000. That's a 75% increase over what you'd get if you started collecting at age

FULL RETIREMENT AGE

Year Born	Full Retirement Age
1937 or earlier	65
1938–1942	65 + 2 months for every year after 1937
1943–1954	66
1955–1959	66 + 2 months for every year after 1954
1960+	67

Source: Social Security Administration (SSA)

62. If you have other income, it may make sense to delay your benefit and let it grow. But if you delay Social Security benefits, it's important to file for Medicare by age 65 to avoid penalties and/or increased costs.

Generally speaking, it's best to start collecting benefits at your full retirement age, assuming an average life expectancy and that your retirement nest egg is adequate. But you may prefer the security of collecting a bigger check. If your retirement assets meet or exceed your likely spending needs and you believe that you'll reach or exceed the average life expectancy (85 years for someone who is 62 today), then fewer but larger payments are most likely to maximize your wealth. It generally doesn't take long for this strategy to pay off.

For individuals who delay the start of benefits from age 62 to 66, the breakeven or crossover age is about 78. For those who delay from age 66 to 70, the crossover age is just over 82. Every day after your crossover age, you're receiving a bonus. However, if you need money right now and other sources of income are insufficient, or if you're in poor health, you may be better off collecting benefits as soon as possible and letting your savings and tax-deferred investments continue to accumulate.

WHAT IF I KEEP WORKING?

You can work while receiving Social Security benefits. However, if you do that before reaching your full retirement age, your Social Security benefit will be reduced by $1 for every $2 you earn above a certain threshold ($15,720 in 2016). In the year you reach full retirement age, benefits will be reduced $1 for every $3 you earn above a limit of $41,880, but only in the months before your birthday. After that, there will be no reduction in benefits no matter how much you make.

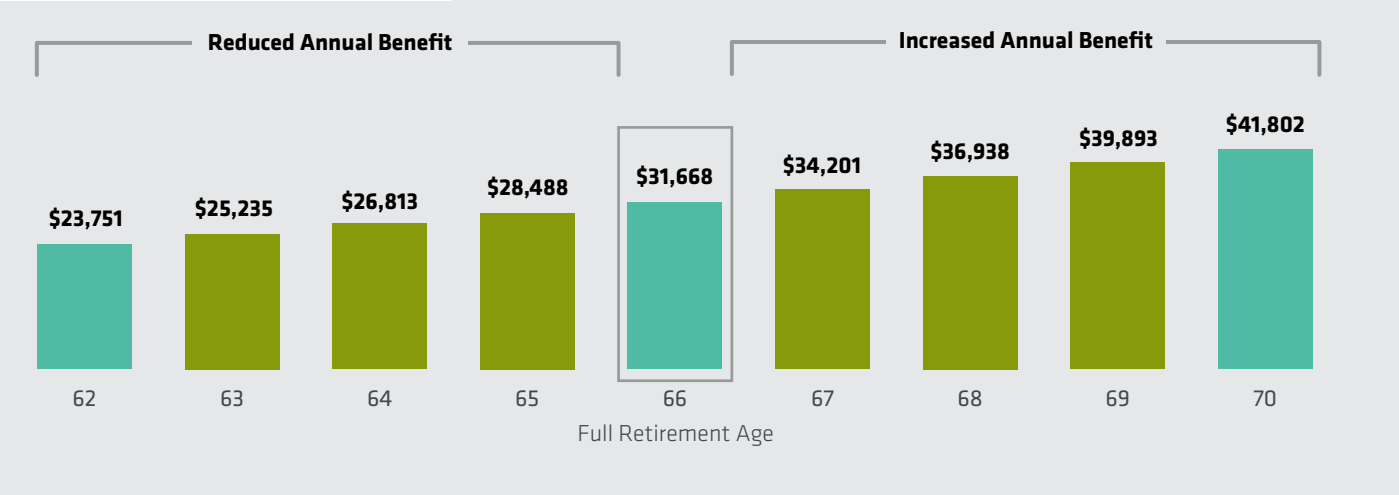
Benefits are generally locked in based on the age you file, but each year the records of all working Social Security recipients are reviewed. If your earnings for the prior year are higher than one of the 35 years used to calculate your PIA, it will be used to generate a new benefit amount.

CAN MY SPOUSE COLLECT ON MY RECORD?

You can claim benefits based on your own work record or on a payout of up to 50% of your spouse's benefit (or your ex-spouse's benefit, if you were married 10 years or more and aren't currently remarried) —whichever is higher, at no detriment to your spouse.

Even if your spouse has never worked and isn't entitled to their own Social Security benefits, they can choose to collect spousal benefits as early as age 62. However, payments will be reduced to 35% of your full retirement benefit, and that percentage rises to 50% of

BENEFIT OF DELAYING SOCIAL SECURITY



As of March 31, 2016
Assumes that the individual has paid the maximum allowable amount into Social Security since age 22 before beginning to receive benefits. Also assumes no earned-income offset (a reduction of $1 for every $2 of earnings above $15,720 in 2016 if benefits begin at age 62). Figures do not include COLAs.
Source: SSA and AB

your benefit if your spouse starts collecting at their full retirement age. Your income won't be reduced because your spouse is also receiving benefits.

If you and your spouse have both filed for your own benefits, but your benefit is much higher than your spouse's, your spouse may get an increase in their own benefit. In that case, their total payment will not exceed 50% of your benefit. Keep in mind that both spouses can't collect spousal benefits at the same time.

ARE MY BENEFITS TAXABLE?

Social Security is taxable at the federal level if an individual or couple earns over specific minimum amounts. Each January, you'll receive a Social Security Benefit Statement (Form SSA-1099): it shows the amount of benefits you received in the previous year. This can be used to complete your federal income tax return, and enables you to see if your benefits are subject to tax (*Display, below*).

When thinking about whether to collect before full retirement age, always consider the after-tax effects. If you and/or your spouse are still working, it may cause your benefits to be taxed—or taxed at a higher rate.

COMBINED INCOME*

Single	Married (Filing Jointly)	% of Social Security Benefits Taxable
$25,000–$34,000	$32,000–$44,000	up to 50%
>$34,000	>$44,000	up to 85%

* Calculated by adding your adjusted gross income to your nontaxable interest and then to 50% of your Social Security benefit; earnings thresholds are updated annually.
Source: SSA

ARE THERE SURVIVOR BENEFITS?

Some Social Security taxes you pay go toward providing "insurance" to beneficiaries, including widows, widowers (and divorced widows and widowers), unmarried dependent children and dependent parents. The survivorship benefit that your beneficiary receives is based on when you began collecting benefits. Many people are surprised to learn that the value of survivors insurance under Social Security may be worth as much as, or more than, the benefit of a typical life insurance policy.

CAN I CHANGE MY MIND AFTER ENROLLING?

The SSA allows you to file a "Request for Withdrawal of Application" within 12 months of beginning to collect benefits, at which point you could repay all the payments you have received and file again at a later date. You're limited to one withdrawal of application during your lifetime.

IS SOCIAL SECURITY GOING BANKRUPT?

The last five Social Security Trustees Reports have indicated that, under the current set of economic and demographic assumptions, Social Security's Old-Age, Survivors, and Disability Insurance (OASDI) Trust Funds will be exhausted by 2035.

After that, if no legislative changes are enacted, scheduled tax receipts into the trust will only be enough to pay about three-quarters of the scheduled benefits. By 2034, all baby boomers will be over the age of 70, supported by a shrinking number of younger workers contributing to the system. As a result, Social Security will need to adapt.

Possible future adjustments include:

+ An increase in the full retirement age
+ Reduced benefits for younger generations
+ A decrease in COLAs
+ Increased payroll taxes and benefit taxability

Changes are likely, but they will probably be phased in over a long period of time, so younger generations can plan accordingly.

To review a sample of Form SSA-1099, along with other useful tools and benefit calculators, please visit ssa.gov

HOW VARIABLE ANNUITIES CAN HELP

Variable annuities[1] are long-term investment vehicles designed for retirement—and for people willing to take more market risk with their money in exchange for greater growth potential. These products may provide the opportunity for market appreciation through an array of investment options. They may offer guarantees of income, principal and downside protection for an added cost, and they're subject to fees and expenses.[2]

When you consider your overall retirement needs, you may decide that you need a source of guaranteed income to help bridge the gaps in your living expenses. These are gaps that Social Security and Medicare don't cover—including out-of-pocket and unexpected medical and long-term-care costs that can take a big bite out of your budget. Variable annuities can fill those budget gaps and help you address your retirement knowns and unknowns.

PLAN AHEAD, CONTROL YOUR DESTINY

Retirement is different for everyone, but most people's wish list starts with the desire to maintain a certain standard of living. All of us have to plan for the long road ahead. Tapping precious resources to pay for known and unknown spending needs could dramatically alter your dreams of a comfortable retirement. Plan accordingly, and reduce the risk of eroding or outliving your retirement assets.

IMPORTANT CHANGES TO SOCIAL SECURITY FILING STRATEGIES

In November 2015, President Obama signed the Bipartisan Budget Act. Among other things, the act changed some of the filing options available for Social Security recipients.

FILE AND SUSPEND

As of April 30, 2016, the "File and Suspend" strategy won't be allowed anymore. This tactic was used to file for benefits without receiving them. It allowed a spouse or beneficiary to start receiving benefits based on your earnings record. And since you didn't receive your own benefits, the benefits continued to accrue.

Now, beneficiaries (except for divorced spouses) can no longer receive benefits from a suspended earnings record. Under the old rules, those with a suspended earnings record could also decide after a few years to give up their delayed retirement credits and request a lump-sum payment retroactive to when they originally filed and suspended. This option isn't available any longer. The good news: people already utilizing the "File and Suspend" strategy prior to April 30, 2016, won't be affected.

RESTRICTED APPLICATION/SPOUSAL-ONLY BENEFIT

This strategy allows someone to claim spousal benefits while they wait to claim their own benefit: this way, their own benefits continue to accumulate. This option is now available only for those born in 1952 or before, and it can only be used by individuals who've reached full retirement age. As a reminder, both spouses can't receive spousal benefits at the same time.

1 Variable annuities offer three main benefits: tax-deferred treatment of earnings, guaranteed death benefit options and guaranteed lifetime payout options. Variable annuity contracts have limitations, will fluctuate in value and are subject to market risk, including the possibility of loss of principal. Variable annuities generally impose withdrawal charges based on a surrender charge schedule. A combination of withdrawals and market declines could reduce a variable annuity's account value to zero, in which case the contract generally would terminate. Withdrawals of taxable amounts are subject to income tax and, if taken prior to age 59½, a 10% federal tax penalty may apply. Early withdrawal may be subject to withdrawal charges. Partial withdrawals may also reduce benefits available under the contract, as well as the amount available upon a full surrender.

2 Guarantees are based upon the claims-paying ability of the issuing insurance company. Guarantees do not apply to the investment performance or safety of the amounts held in the variable accounts. Such benefits and payments are subject to the financial condition of the insurance company. There are fees and charges associated with variable annuities that include, but are not limited to, mortality and expense risk charges, sales and surrender charges, administrative fees, and charges for optional benefits. As with any investment, investing in variable portfolios involves risk, including possible loss of principal. Past performance is not a guarantee of future results.

DID YOU KNOW?

JANUARY 1940

Ida May Fuller, age 65, became the first American to receive a monthly Social Security check. At her death at 100, Fuller had collected total benefits of $22,888.

2015

Last year, over 59 million Americans received almost $870 billion in Social Security benefits.

50%

of Americans age 65 and older rely on Social Security for at least half of their family income.

2035

is the year by which there will be 2.1 workers for every 1 Social Security beneficiary, down from 2.8 workers today.

39%

of the income of the elderly is represented by Social Security benefits.

15%

is the amount by which the federal government can garnish your Social Security benefits for repayment of several types of debt, including federal income taxes, federal student loans, child support, alimony, and defaulted federal home loans.

November 1936

is the month when the first Social Security card was issued. Since then, 453.7 million cards have been issued.

LEARN MORE

FOR MORE INFORMATION ABOUT YOUR SPECIFIC BENEFITS, CHECK OUT THE OFFICIAL SOCIAL SECURITY WEBSITE AT **WWW.SSA.GOV**

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