RETIREMENT INSTITUTE℠

Social Security

Nationwide Financial

Your guide to filing for Social Security

It's a choice of a lifetime. Make it count.

Social Security —

It's more than a monthly check

As you approach retirement, you'll likely face a host of decisions that could significantly impact your financial future. One of the critical decisions you'll make relates to Social Security, which plays an important role in your broader retirement income plan.

Social Security offers many benefits, such as:

- Lifetime retirement income
- Payments indexed for inflation
- Certain spousal and survivor benefits
- Preferential tax treatment

With benefits like these, it's easy to see why Social Security is such an important component of your overall portfolio.

Making a sound decision is critical for ensuring your financial security in retirement, and it requires a greater understanding of how Social Security income fits into your overall retirement plan. Along with this guide, your financial advisor can provide the information you need to make a decision that's right for you.

Your opportunity of a lifetime

Your decision about when and how to file for Social Security benefits is one of the most important decisions you will ever make. No doubt it will greatly impact the amount of essential and discretionary income you have during retirement. And the decision you make is largely permanent (although you have a 12-month window to change your decision.)

Regardless of your income level, Social Security is a significant component of your overall portfolio, and it provides an opportunity you don't want to overlook. As a portion of your lifetime retirement income — and one that is indexed for inflation — Social Security takes on added importance as pensions and personal assets continue to be on the decline.

Social Security may represent between

30-40%

of your annual retirement income.[1]

Not only can Social Security help fill the gap by covering basic retirement expenses, but you can also grow your baseline and increase your benefits through options like delaying and spousal filing.

While the importance of your Social Security decision cannot be understated, your advisor has a host of tools and resources to assist you with the process. Take advantage of this choice of a lifetime, and make a decision that's in line with your financial goals in retirement.

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.

[1] LIMRA Retirement Income Reference Book, 2012; "Sources of Retirement Income study", LIMRA, 2011.

Understanding your benefits

For many years, 65 was the default age for retirement, primarily because at this age you were eligible for full Social Security benefits. That has changed — full retirement age is now either 66 or 67. Moreover, Social Security benefits can start as early as age 62, although at a permanent reduction in benefits. In fact, 62 is now the age at which most Americans file for Social Security.[2]

Filing early may make sense for some people, but it's important to understand the consequences of filing early — and the opportunity you may miss to increase the income Social Security provides.

> Filing for benefits at age 62 means you receive the minimum amount of benefits you're eligible for from Social Security.
>
> ---
>
> Delaying benefits up to age 70 could help you grow your Social Security income by as much as 76%.

More consequences for filing early

Not only does filing early reduce your benefits, it also changes your options for benefits that members of your family may be eligible for, including:

1. Benefits for your spouse
2. Benefits for surviving spouse
3. Benefits for dependent children

Most importantly, your Social Security decision should be considered with your overall retirement income plan in mind. How and when you file will have a lasting effect on your financial situation throughout retirement.

[2] LIMRA, using 2012 data from the Social Security Administration.

Social Security concerns

Whenever you face important decisions that affect your future, some concerns may also arise. With these decisions, it's important to get the facts straight and sort out any misconceptions you may have.

Let's look at two of the most common concerns people have about Social Security — solvency and longevity.

Will Social Security be there for you?

When people talk about Social Security these days, many often say they don't believe the program will be around for them in the future. This concern is not unfounded — the Social Security Administration paid more in benefits than received in tax income in 2012 (the most recent year of data available).

Here's what the Social Security Board of Trustees says about the solvency of the program.

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

Full benefits are payable to at least 2033

75% of benefits payable afterward

But legislation is likely to change going forward, with the goal of extending the solvency of Social Security. The one policy proposal with the broadest legislative support calls for a change in the basis used for calculating annual cost-of-living adjustments from the consumer price index (CPI) to chained CPI.

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. 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.

Will you be there for Social Security?

You may worry that you won't live long enough to reap the benefits of Social Security if you wait to file. Truth is, nearly 50% of pre-retirees underestimate their life expectancy — with over 30% guessing wrong by five years or more.[3]

Likelihood of living a long life[4]

	65-year-old male	65-year-old female	65-year-old spouse
50% chance of reaching age...	83	86	90
25% chance of reaching age...	89	92	94

Longer life expectancies mean you will likely need Social Security income for a longer period of time. So it may make sense to take advantage of delaying rules that can grow your monthly benefit, while helping you accumulate more benefits over the course of your retirement.

There are times, however, when it makes sense to start Social Security benefits sooner — even if reduced. For everyone, there is a break-even point — typically between 12 to 15 years from the start of Social Security benefits — where accumulating higher benefits over a shorter period outweighs collecting smaller benefits over a longer period. Your life expectancy is the primary determinant of when this break-even point may occur for you.

[3] Society of Actuaries longevity study, 2011.

[4] 2012 LIMRA Retirement Income Reference Book.

Social Security basics

In case you're a bit overwhelmed by the decisions related to filing for Social Security benefits, we can help you digest them one step at a time. Let's begin by introducing some important terms you'll need to know and discussing some of the rules that will impact your filing decision.

Full retirement age (FRA)

This is the age when you are eligible for full Social Security benefits. Although the age used to be 65, that's no longer the case. In fact, FRA is gradually increasing to 67, starting with people born in 1943 or later. Early filing can occur starting at age 62 up to full retirement age. But you can delay filing up to age 70 in order to increase your benefit amount.

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

FRA is between 66 and 67 for individuals born between 1943 and 1959. FRA will be 67 for everyone born in 1960 or later.

Your primary insurance amount (PIA)

The primary insurance amount (PIA) is the amount you'll receive if you start taking benefits at full retirement age. The formula for calculating Social Security benefits differs from formulas typically used to determine pension benefits, which are often based on your top five or last three earnings years, for instance.

PIA is based on lifetime Social Security earnings adjusted for inflation

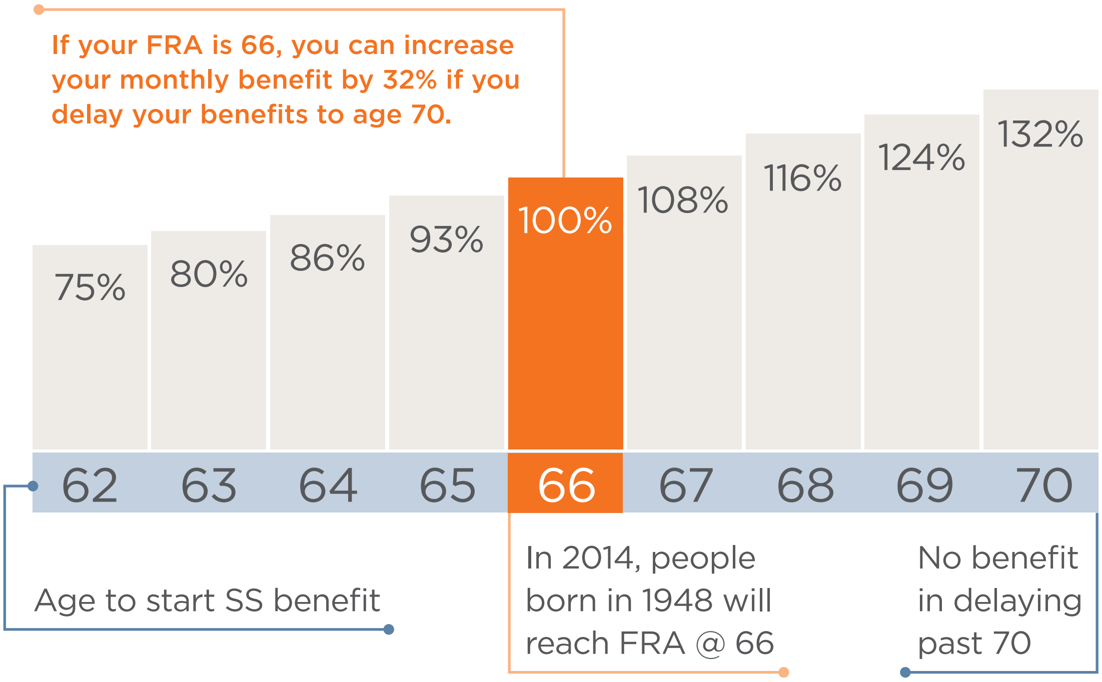
- Average monthly earnings over highest 35 years of earnings
- Benefit reflects a percentage of average monthly earnings
- Higher earners receive a smaller percentage than low-wage earners

The PIA is also subject to cost-of-living adjustments (COLA), which protect against inflation.

> To obtain your current PIA, download your current benefit statement at ssa.gov.

Timing may be everything

Making a decision about when to file varies based on your individual situation. Your options include early filing, delayed filing, or opting to file for benefits at full retirement age. Remember, the longer you wait to file, the more your monthly benefit will be. So the decision about when to file can significantly impact your retirement income. That's why the pros and cons of each option should be carefully considered.



Providing for those who matter most

Certain benefits exist to address different family scenarios. Other family members who depend on you may be eligible for Social Security benefits as well. It's important to know which benefits apply to your situation. This makes it possible to optimize your income during retirement and provide income to a surviving spouse when one spouse passes away.

Benefits for spouses

Spousal benefits are among the most common available. Spouses are eligible for benefits based on their spouse's earnings record, and for a nonworking spouse these benefits may represent significant dollars. To be eligible for spousal benefits, you must be 62 and married for at least one year. Benefits can be significant, up to 50% of the working spouse's PIA.

Eligibility

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

Benefits

- Up to 50% of spouse's PIA

Benefits for surviving spouses

Married couples should also be aware of survivor benefits, especially since these benefits can significantly affect lifetime earnings from Social Security. A surviving spouse is eligible based on the deceased spouse's record. To be eligible for survivor benefits, you must be 60 years old and married for at least nine months.

In this case, the survivor is eligible to receive the greater of the spouse's PIA — including delayed retirement credits earned — or 82.5% of the spouse's PIA if the spouse took early benefits. It should be noted that survivor benefits can be received independent of individual benefits.

Eligibility

- Married for at least 9 months
- Benefits can be taken as early as age 60

Benefits

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

Benefits for divorced spouses

A divorcee may be eligible for benefits based on the ex-spouse's record. However, certain rules apply. The couple must have been married for more than 10 years, and the spouse claiming the benefits must be currently unmarried or remarried after age 60. Benefits can begin at age 62, and the ex-spouse does not have to file.

Eligibility

- Married for at least 10 years
- Currently unmarried or remarried after age 60
- Ex-spouse does not have to file

Benefits

- Spousal and survivor benefits
- No impact on ex-spouse's benefit
- Not subject to the family maximum

Benefits for other family members

Other family members may also be eligible for benefits, and Social Security considers their needs as well. Children who are under the age of 18 and unmarried may be eligible for Social Security benefits on their parents' records. And family members who are disabled may qualify for individual, spousal, and survivor benefits. Dependent parents can receive benefits if they are age 62 or older. It's best to work with your advisor to create an optimal strategy that addresses the needs of you and your family.

Eligibility	Benefits
Dependent Children	50% of parent's PIA; 75% of survivor benefits
Disabled Individuals	Individual, spousal and survivor benefits
Dependent Parents	50% of PIA, 75% of survivor benefits

Social Security filing options

As you approach your Social Security filing decision, it's helpful to understand many of the terms you'll encounter and how the different options work. Generally, flexibility around your options increases once you reach full retirement age, particularly with spousal benefits. So you may have even more advantages to delaying Social Security benefits.

Before FRA	At or after FRA
• **Deemed filing** – File for all eligible benefits (cannot claim spousal benefits only) – Benefits will be discounted	• **Standard filing** – File for all eligible benefits • **File and suspend** – Allows you to delay benefits up to age 70 to earn credits and increase monthly benefits – Allows spouse to collect spousal benefits • **File restricted** – Allows you to begin spousal or survivor benefits while earning delayed retirement credits

Common filing opportunities

While the filing rules offer many opportunities to plan your Social Security benefits around your specific needs, the complexity of the rules makes it more difficult to know which way to go. This is where a financial advisor can provide valuable guidance and help you make a filing decision that fits with your and your family's financial needs for retirement.

Let's look at a few examples on the following pages to illustrate how these filing options can help optimize Social Security benefits for some common situations.

Common filing opportunity #1:

Optimizing spousal benefits

As life expectancy for many Americans continues to increase, it makes sense for many married couples to delay Social Security benefits. Spousal benefits can help couples begin to receive some income at full retirement age, while earning delayed retirement credits for both spouses.

The rules allow couples to collect higher monthly benefits over a longer time frame, and therefore earn more total Social Security benefits. Let's look at a hypothetical married couple to see how this strategy works:

Meet Jim and Linda

Current age:	Monthly PIA:	Life expectancy:
Both will turn 62 in 2014	Jim — $2,300 Linda — $1,200	Jim — 83 Linda — 86

As the higher-earning spouse, Jim should consider the option to file and suspend at age 66 to increase his higher PIA. Linda can file restricted at age 66 — meaning, only filing for spousal benefits — to receive some income. She can also earn delayed retirement credits on her own record to increase her own Social Security benefit.

At age 66...

- Jim files and suspends
- Linda files restricted for spousal benefits, allowing her own benefit to increase.

At age 70...

- Jim files for his increased benefits
- Linda switches to her own increased benefit

At age 83...

- Jim passes away
- Linda starts survivor benefits at Jim's PIA plus delayed retirement credits

Cumulative SS benefits: $1,273,620

Linda's monthly benefit: **$1,269**

Jim's monthly benefit: **$3,698**
Linda's monthly benefit: **$1,929**

Linda's monthly benefit: **$5,097**

Among Jim and Linda's filing options, this strategy results in the highest cumulative benefits over both of their lifetimes.

Jim files & suspends, Linda files restricted

Cumulative SS benefits: $1,273,620

Standard filing for both at FRA

Cumulative SS benefits: $1,109,400

Both file early at 62 (deemed filing)

Cumulative SS benefits: $973,428

This example assumes annual 2.5% cost-of-living adjustment for Social Security benefits.

General guidelines for optimizing spousal benefits:

- **The higher earner should typically file and suspend while the lower earner will file restricted**
  - The higher PIA will always be tied to the higher spousal benefit
- **In this strategy, spousal benefits should always be taken as soon as FRA is reached**
  - The monthly spousal benefit will not grow after FRA, so waiting beyond FRA to file restricted will only result in missed Social Security checks
- In order for one spouse to claim spousal benefits, the other spouse needs to file first or simultaneously
  - By suspending benefits, the other spouse fulfills the filing requirement without taking income, and earns delayed retirement credits

FAQ:

Can both spouses collect spousal benefits at the same time?

No. Only one spouse can claim spousal benefits. Some reference materials recommend this strategy as a way to increase current income while delaying benefits. The Social Security Administration does not permit this filing strategy. Attempting to employ this strategy will result in neither spouse being able to claim a spousal benefit.

Common filing opportunity #2:

Getting the most survivor benefits

One retirement planning concern married couples often have is providing financial resources for one spouse when the other passes away. Statistically, women live longer than men and are more likely to be on their own later in life.

Proper planning of a couple's Social Security filing decisions can help them achieve the goal of providing income for a surviving spouse, through a filing decision that provides them with the largest survivor benefit possible. Another example using a hypothetical married couple illustrates how this strategy works.

Meet Michael and Lisa

Current age (in 2014):	Monthly PIA:	Life expectancy:
Michael — 62 Lisa — 50	Michael — $2,200 Lisa — $1,100	Michael — 83 Lisa — 86

When there is a significant age gap between two spouses, as in the case of Michael and Lisa, it makes sense for the older spouse to delay Social Security to grow his benefit. This will in turn optimize the benefit received by the surviving spouse. So when Michael passes away, Lisa will receive for her surviving spouse's benefit either her own benefit or her husband's benefit, whichever is larger.

If Michael files at age...	70	66 (Michael's FRA)	62
Michael's monthly benefit	$3,538	$2,428	$1,650
Lisa's monthly survivor benefit	$4,878	$3,695	$2,771
Lisa's cumulative survivor benefits (from age 71 when husband dies, to age 86)	$1,049,557	$795,119	$596,339

This example assumes annual 2.5% cost-of-living adjustment for Social Security benefits.

General guidelines for survivor benefits:

- For couples with one spouse as the primary earner, **the higher-earning spouse should delay benefits to age 70**
- For couples with a large age gap between the two spouses, **the older spouse should delay benefits to age 70**
- If one spouse has a shorter life expectancy, **that spouse should delay benefits as long as possible** in order to grow the surviving spouse's benefit

Some additional considerations before you file

In addition to knowing about the benefits available to you and understanding when and how to file, there are a few more topics that can influence your filing decision. From taxation, to working in retirement, to government pensions, these are considerations that should be carefully examined.

How taxes affect Social Security

When you plan for retirement, it's important to consider how various income sources are taxed as it can affect how much money you'll actually have for retirement expenses. Fortunately, Social Security is taxed up to a maximum of 85%, making it one of the more tax-efficient sources of income for retirees.

Taxable retirement income	Partially taxable retirement income	Tax-free retirement income
• Pension Income • Traditional retirement accounts (401(k), IRA) • Interest and dividend income	• **Social Security — up to 85% taxed** • Immediate annuity income • Cash-value life insurance	• Roth IRAs and 401(k)s • Interest from municipal bonds • Loans from life insurance policies

The portion of Social Security income that is taxable varies with each individual, and is dependent on your adjusted gross income and the amount of Social Security benefits you receive. Filing early for Social Security forces you to be more dependent on assets that could be fully taxed. On the other hand, when Social Security is a bigger component of your retirement income stream, you can potentially reduce your taxable income and increase the amount of money you are able to keep.

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.

Let's look at the example of Steven and Marie, an average couple planning for retirement. They want an annual income in retirement of $100,000 before tax. If they delay filing for Social Security benefits and rely less on income that is fully taxable, their taxable income can decrease by 40%.

If Steven and Marie file...	Early	Delayed
Target pre-tax income	$100,000	$100,000
Social Security income	**$38,000**	**$68,000**
Traditional retirement account income[5]	$62,000	$32,000
Taxable Social Security benefit	$32,300	$24,700
Taxable income (AGI + SS income test)	$94,300	$56,700

Delayed filing increases their Social Security income by 79%

Their taxable income decreases by 40%

[5] Adjusted Gross Income

If you work in retirement

For those of you who have worked for many years, you may look forward to relegating your work clothes to the back of the closet. Or, you may realize that part-time work is necessary to reach a desirable income during retirement. Others still view retirement as a time to pursue new careers and opportunities.

If you plan to work while collecting Social Security benefits, it's important to understand that those benefits may be withheld if you start collecting benefits before full retirement age or in the year you reach full retirement age. Any benefits withheld are returned to you once you stop working. However, once you pass FRA, the Social Security Administration no longer limits the amount of earnings you can receive.

Before FRA	At FRA	After FRA
$1 withheld for every $2 above annual limit ($15,480)	$1 withheld for every $3 above annual limit ($41,400)	No limit on earnings Withheld earnings are returned

If you are a government employee

Pensions are a traditional source of retirement income for many Americans, but some pensions can affect your Social Security benefit. Payroll taxes are used to fund Social Security, and this appears on your pay statement as FICA (Federal Insurance Contribution Act) or OASDI (Old Age, Survivor and Disability Insurance). If you work for an employer that does not withhold FICA taxes from your wages, such as some government agencies or nonprofit organizations, the pension you receive from that employer may reduce the amount of benefits you get from Social Security.

Windfall Elimination Provision (WEP)

This provision reduces your PIA if you receive a pension from an employer who did not withhold FICA taxes. WEP changes the formula used to calculate your benefit amount, resulting in a lower Social Security benefit than you otherwise would receive.

> For the first $816 in earnings used to calculate benefits, you receive 40%.
>
> The WEP deduction cannot be more than one-half of your pension amount.

If you have 30 years of earnings that are subject to FICA taxes, this provision does not apply.

Government Pension Offset (GPO)

As a government employee, not only are your own Social Security benefits subject to being reduced, but benefits you can collect as a spouse or widow could also be reduced. If you receive a pension based on work where FICA taxes were not paid, spousal or survivor benefits will be reduced by two-thirds of your pension. This could result in a complete elimination of eligible Social Security benefits.

For example, Kevin and Cara are planning for retirement. Cara worked for the government throughout her career and is entitled to a pension of $2,100. Kevin worked for an employer who withheld FICA taxes, and his PIA is $2,000. The government pension offset on Cara's pension income is $1,400 (two-thirds of her $2,100 pension). This will eliminate her spousal benefit and reduce her survivors benefit to $600.

	Normal benefit	Cara's benefit after $1,400 GPO (2/3 of pension)
Spousal benefit	$1,000	$0
Survivors benefit	$2,000	$600

Getting Started

Although you may be feeling somewhat overwhelmed about making the right decision, your financial advisor can help. The following approach will make it easier to get started.

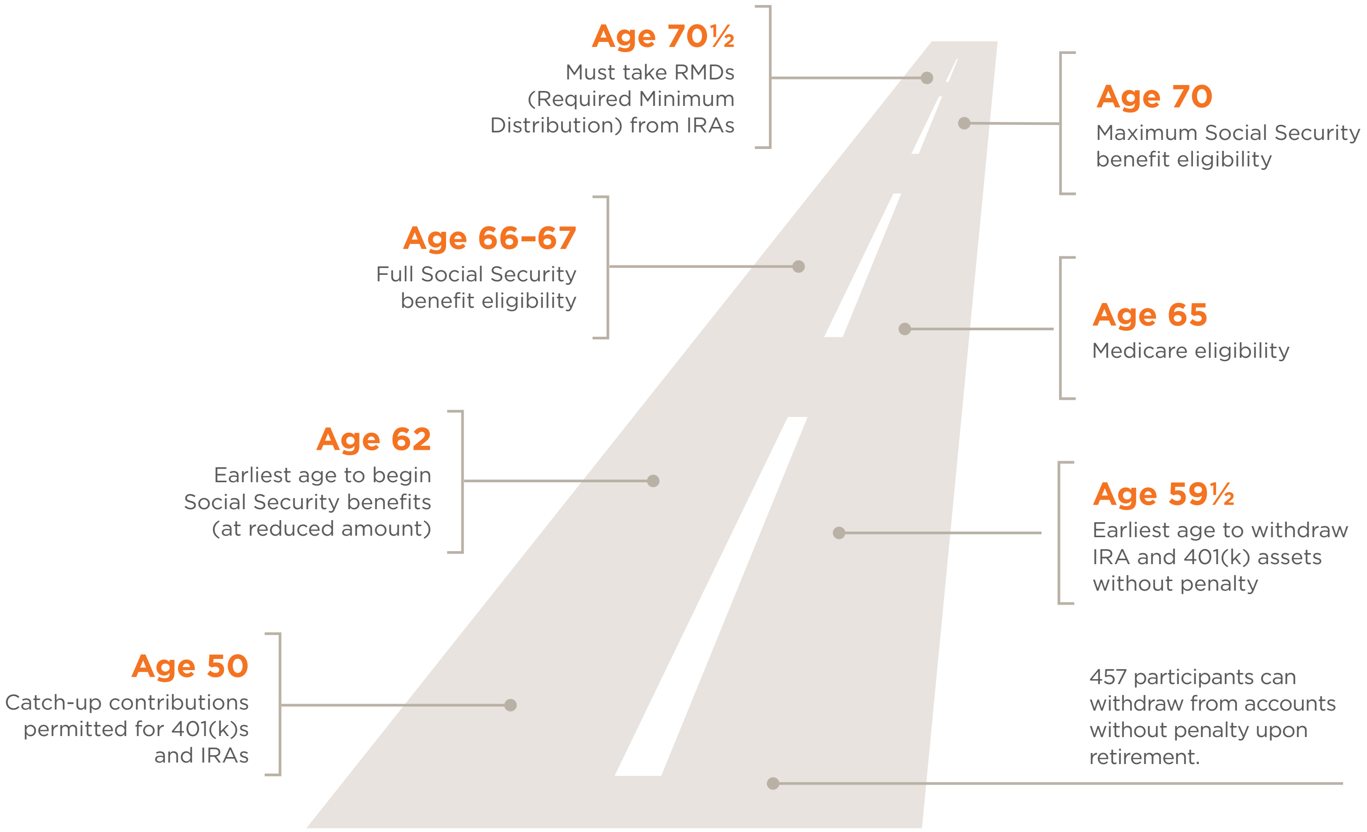
Here's how your advisor can help you make the right decisions:

- Put your Social Security options in a broader context with your overall retirement plan and help you make the best decision for your situation
- Discuss the filing options that may apply to your specific situation
- Create a personalized Social Security filing options report for you to help illustrate the differences between the decisions you can make
- Work with you to make a Social Security decision that's right for your personal situation

As you approach or enter retirement, be sure to carefully evaluate the many decisions along the way.

Where are you on the road to retirement?

The decision about when to file for Social Security benefits should take into consideration the bigger picture of your overall retirement plan. Think of it as traveling down the road toward retirement. Along the way, you will face many turning points when pivotal decisions need to be made — decisions that could significantly impact your financial future.



Your next steps

At this point, you understand that the decision you make about Social Security is personal, and it varies with each individual. But you probably still have several questions. Begin the decision-making process by scheduling a Social Security planning meeting with your financial advisor. Together, you can decide when and how to file for Social Security benefits.

- Complete the Social Security Client Questionnaire included with this brochure; your answers will help to facilitate a discussion about your specific options
- Review the enclosed sample of the Social Security filing options report; this will help you better understand what your own report will show you.
- Bring a copy of the Social Security Statement for you and your spouse or partner (if married) to the planning meeting; simply download a copy of your statement when you register for a "My Social Security" account at ssa.gov

Remember, Social Security is a choice of a lifetime that can greatly impact the quality of your retirement. That's why it helps to work with your advisor to arrive at a decision that's best for you.

Clients: Talk to your financial advisor to learn more about making a Social Security decision that meets your needs.

Financial professionals: For more information, call the Nationwide Financial Income Planning Desk at 1-877-245-0763 or visit nationwidefinancial.com/socialsecurity.

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