



ANTICIPATE

Social Security and Your Retirement

SAVING : INVESTING : PLANNING



VALIC®

About this seminar



Presentation

- Provides comprehensive education
- Includes action steps
- Provides opportunity to develop personalized financial plan



Brochure

- Reinforces major presentation points
- Serves as future resource

A seminar evaluation form. The title 'Seminar evaluation form' is at the top. Below it are fields for 'Date of seminar', 'Name of presenter', and a question 'Would you like to schedule a complimentary consultation?' with 'Yes' and 'No' options. There are fields for 'Name', 'Day phone', 'Evening phone', and 'E-mail address'. A note says '(Please indicate your preferred contact method.)'. Below this is a section for rating the seminar, with a scale from 'Not very good' to 'Excellent' and a question '1. What did you find of particular interest in today's seminar?'. There are also questions '2. How could we improve this seminar?' and '3. What other topics would you like to learn more about?'. At the bottom, there is a question '4. Would any of your friends or associates benefit from this presentation?' and a field for 'Name' and 'Telephone'.

Seminar evaluation form

- Provides opportunity for feedback

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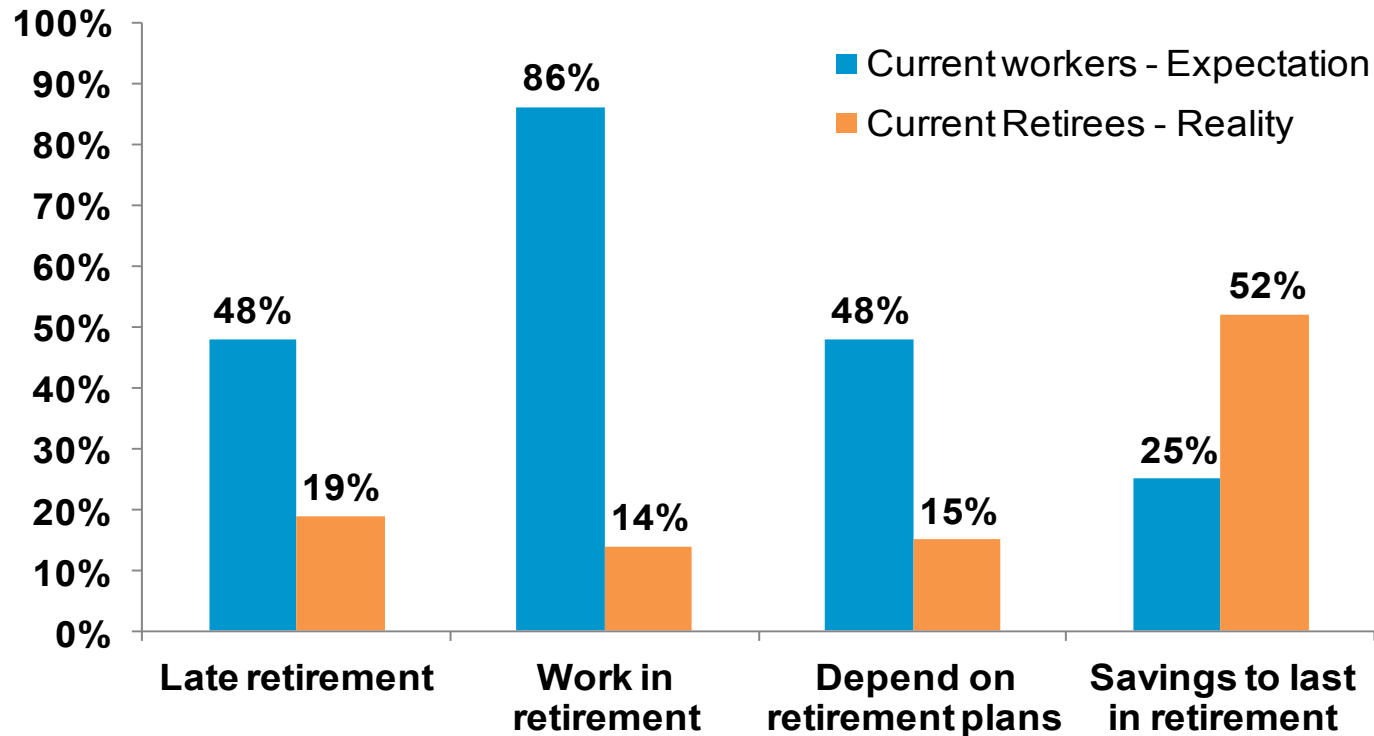
- 1 The cost of retirement
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- 3 Bridging the income gap
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1

The cost of retirement

Expectation vs. reality

How do you envision your transition into retirement?



Source: BlackRock's Annual Retirement Survey, 2012.

The cost of retirement

Calculating the cost of retirement

Current gross income	\$40,000	\$60,000	\$80,000	\$100,000
Plan contribution (6%)	<u>- \$2,400</u>	<u>- 3,600</u>	<u>- \$4,800</u>	<u>- \$6,000</u>
	\$37,600	\$56,400	\$75,200	\$94,000
Marginal tax rate*	<u>- 15%</u>	<u>- 15%</u>	<u>- 25%</u>	<u>- 25%</u>
Net income	\$31,960	\$47,940	\$56,400	\$70,500
- 20%	<u>- \$6,392</u>	<u>- \$9,588</u>	<u>- \$11,280</u>	<u>- \$14,100</u>
Income needed in retirement	\$25,568	\$38,352	\$45,120	\$56,400

*Refer to the marginal tax bracket table in the workbook to calculate your retirement income needs based on your actual current income.

This chart is a hypothetical estimate of income needed in retirement, factoring in the current marginal tax rate for a married couple filing jointly.

The cost of retirement

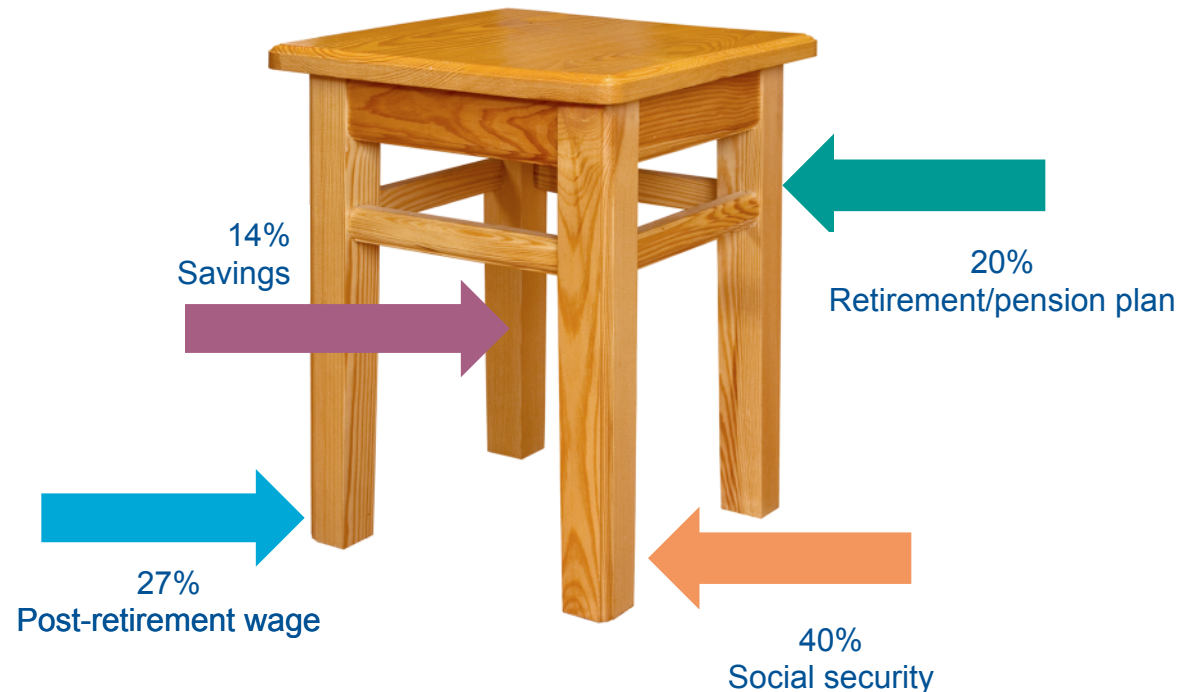
When will you need the most income in retirement?

Annual spending	Age 55 - 64	Age 65 – 74	Age 75+	% change 55 – 75+
Apparel & services	\$ 1,571	\$ 1,186	\$ 708	-54%
Entertainment	2,683	2,341	1,374	-48%
Food & alcohol	6,470	5,540	4,057	-37%
Healthcare	3,859	4,922	4,754	+23%
Housing	16,673	14,420	11,421	-31%
Transportation	8,111	6,086	4,288	-47%
Personal insurance & pensions	6,403	2,648	996	-84%
Miscellaneous	5,130	4,291	3,931	-23%
Total expenditures	\$50,900	\$41,434	\$31,529	-38%

Total expenditures for those age 75+ are 38% less than those aged 55 – 64.

Source: U.S Department of Labor, Bureau of Labor Statistics, Consumer Expenditure Survey, September, 2011.

Sources of retirement income



This is just one sample scenario from households with annual incomes of \$34,750. Your sources of retirement income will vary depending on your individual situation.

Source: Social Security Administration, Fast Facts and Figures About Social Security, 2011 (latest available data). May not add to 100% due to rounding.

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Social Security benefits

Social Security benefits

Did you know?

- > In 1940, Ida Fuller was the first recipient of Social Security retirement benefits
- > Ida lived until age 100 and, although she only contributed a total of \$24.75 to Social Security, she received more than \$22,888 in payments
- > Ida still supplemented her Social Security check with an apartment rental and stock income



The basics

> It is insurance, not charity or savings

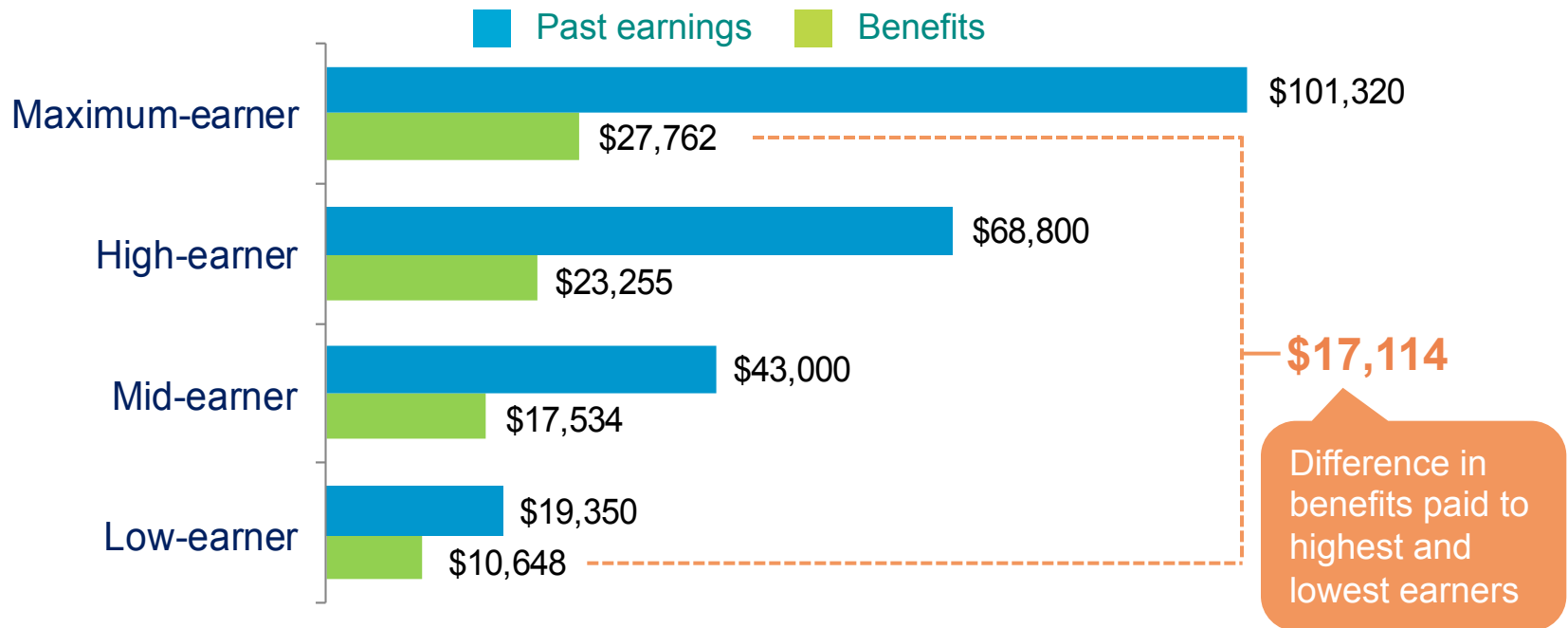
> Eligibility

- 40 credits of working service (equal to about 10 years)
- Depending on birth year, full retirement age varies from 65 to 67

Year of Birth	Full Retirement Age (FRA)
1937 or earlier	65
1938 - 1942	65 + 2 months per year after 1937 until 1943
1943 - 1954	66
1955 - 1959	66 + 2 months per year after 1954 until 1960
1960 and later	67

Average annual Social Security benefits

Annual earnings vs. benefits for workers retiring at age 65



Source: SocialSecurity.gov. The 2012 Annual Report of The Board of Trustees of the Federal Old-age And Survivors Insurance and Federal Disability Insurance Trust Funds.

Estimating your benefits

Access the Social Security online calculator



The screenshot shows the Social Security Administration's website. At the top, a search bar contains the URL www.ssa.gov/estimator. Below the search bar is the Social Security Administration logo and the text "Social Security The Official Website of the U.S. Social Security Administration". To the right of the logo is a navigation bar with links: "Sign In to my Social Security", "FAQs", "Contact Us", and social media icons for Facebook, Twitter, and YouTube. Below the navigation bar is a search bar with the text "Search...". The main content area is titled "Retirement Estimator". Under this title, there is a section "How The Retirement Estimator Works" which explains that the estimator gives estimates based on actual Social Security earnings record and that these are just estimates. It also lists reasons why the estimates may differ from actual benefits. To the right of this section is a "Related Information" section with links to "Estimate Your Life Expectancy" and "What is the best age to start receiving retirement benefits?".

www.ssa.gov/estimator

 **Social Security**
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Retirement Estimator

How The Retirement Estimator Works

The Retirement Estimator gives estimates based on your actual Social Security earnings record. Please keep in mind that these are **just** estimates. We can't provide your actual benefit amount until you apply for benefits. **And that amount may differ from the estimates provided because:**

- Your earnings may increase or decrease in the future.
- After you start receiving benefits, they will be adjusted for cost-of-living increases.

Get Your Social Security Statement Online [Learn More](#)

Related Information

[Estimate Your Life Expectancy](#)

[What is the best age to start receiving retirement benefits?](#) 

Source: SocialSecurity.gov.

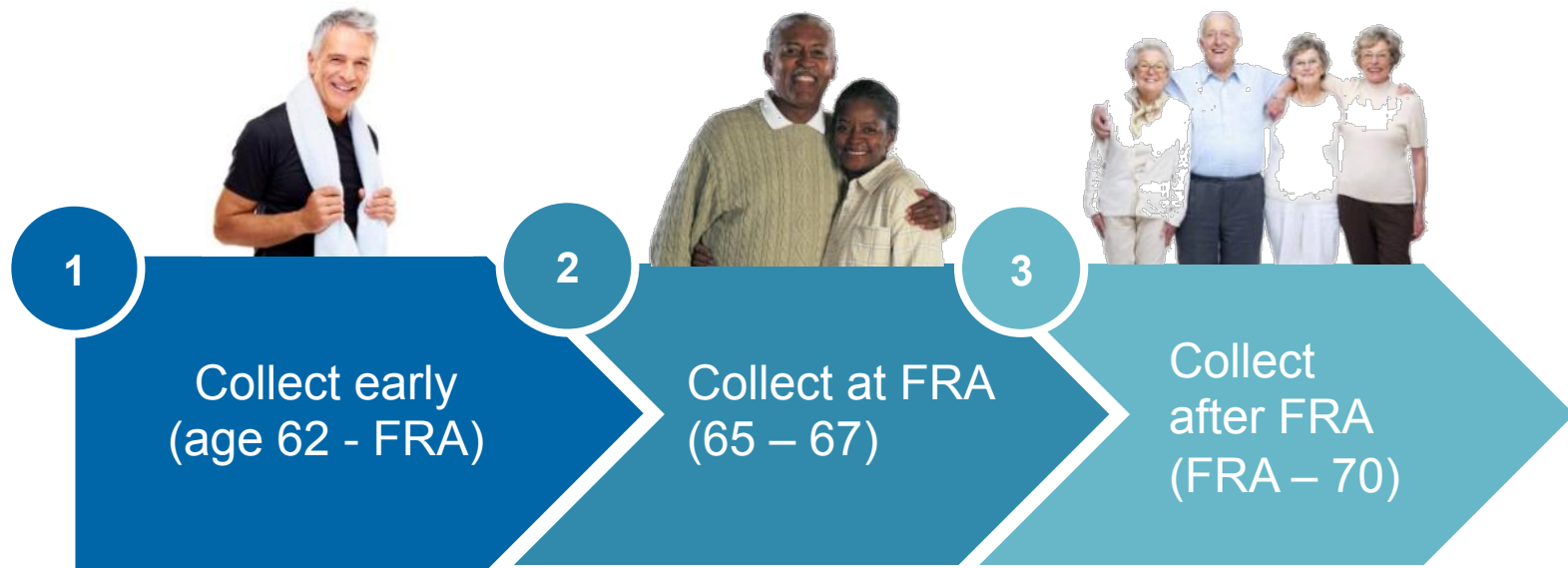
When to start taking benefits?

There's no "one size fits all" ... it depends on your circumstances

- >Your current cash needs
- >Your health and family longevity
- >Whether you plan to work in retirement
- >Your other sources of retirement income
- >Your anticipated future financial needs and obligations
- >The amount of your future Social Security benefit



Options for collecting benefits



The options for collecting are not intended to encourage a particular choice. Analyze your individual situation and seek guidance from a financial advisor.

1. Collect early

Reasons	Pros	Cons
<ul style="list-style-type: none">> Illness or unemployment> You expect to have a short life expectancy> You need the money immediately to make ends meet> Money is not a concern, and you just prefer to stop working	<ul style="list-style-type: none">> You would collect income over a longer period of time	<ul style="list-style-type: none">> Your monthly Social Security benefit amount would decrease> If you continue working, you will be penalized for earnings over the maximum amount allowed for working beneficiaries

Social Security benefits

1. Collect early

Social Security benefits will be reduced by as much as 30%

Year of Birth	Full Retirement Age	If collected at age 62, your \$1,000 benefit will be reduced to:	That's a percentage decline of:
1943 – 1954	66	\$750	-25%
1955	66 and 2 months	\$741	-26%
1956	66 and 4 months	\$733	-27%
1957	66 and 6 months	\$725	-27%
1958	66 and 8 months	\$716	-28%
1959	66 and 10 months	\$708	-29%
1960 and later	67	\$700	-30%

*Percentages are approximate due to rounding.

Source: Retirement Planner: Benefits By Year Of Birth. Social Security Administration. [SocialSecurity.gov](https://www.ssa.gov/benefits/retirement/planner/benefits.html).

2. Collect at Full Retirement Age (FRA)

Reasons

- > You can afford to wait until FRA to begin receiving benefits, and the monthly benefit amount at FRA will meet your needs
- > You are in good health and expect to live long past your FRA

Pros

- > You receive 100% of your Social Security benefits
- > If you wait to collect and continue working until FRA, you add more earnings to your work record



3. Collect after Full Retirement Age (FRA)

Reasons

- > You need the maximum monthly benefit to meet your expenses
- > You are in good health and expect to live long past your FRA

Pros

- > Your benefit payments would increase by up to 8% a year
 - The yearly rate of increase depends on your year of birth
 - Increases end after you reach age 70, even if you continue to delay taking benefits



3. Collect after Full Retirement Age (FRA)

Year of Birth	Yearly Rate of Increase
1935-1936	+6.0%
1937-1938	+6.5%
1939-1940	+7.0%
1941-1942	+7.5%
1943 or later	+8.0%

This Delayed Retirement Credit (DRC) is in addition to the Cost of Living Adjustment.

Finding the break-even point

Longevity plays a key role in determining which option is best

Age	Begin at Age 62	Begin at FRA of 66	Begin at Age 70
62	\$21,600	\$0	\$0
67	\$129,600	\$57,600	\$0
70	\$194,400	\$144,000	\$38,016
75	\$302,400	\$288,000	\$228,096
78	\$367,200	\$374,400	\$342,144
80	\$410,400	\$432,000	\$380,160
82	\$453,600	\$489,600	\$494,208

This is a hypothetical example that assumes a monthly benefit of \$2,400 at FRA and no cost of living adjustment.

This break-even point analysis is not intended to either encourage or discourage you to claim SS benefits at any age. It is intended to provide you hypothetical information to help you with your retirement planning. Analyze your individual situation, and seek guidance from a financial advisor.

Social Security benefits

Single filer

- > Qualifies for social security benefits solely based on work history
- > Life expectancy is the best strategy for determining when to file

Female			Male		
Average life expectancy	Files at age 62	Files at age 70	Average life expectancy	Files at age 62	Files at age 70
79	\$113,352	\$105,618	76	\$ 98,423	\$ 74,239
84	\$134,305	\$150,421	81	\$122,295	\$124,612
89	\$150,911	\$186,906	86	\$141,434	\$165,950

This is a hypothetical example that shows how a three-year difference in life expectancies between men and women changes the overall strategy for filing. It assumes a monthly benefit of \$1,000 at FRA.

Source: cbsnews.com. How Single Filers Can Get the Most from Social Security, August 2010.



Spousal benefits

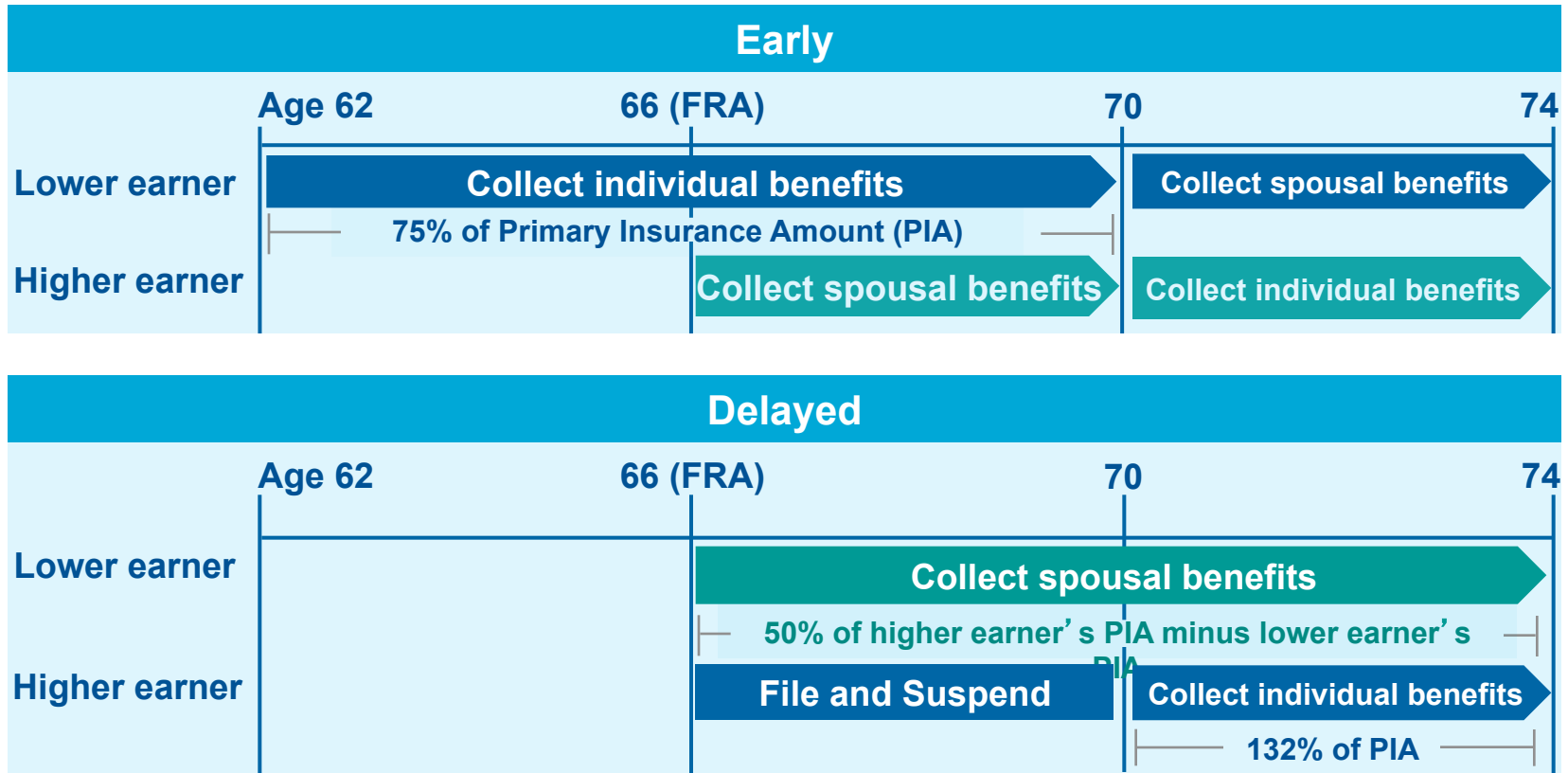
- > Spouse can claim the greater of his/her own benefit or **50% of their spouse's benefit at FRA**
- > Spouse cannot collect on spouse's record until the primary files for benefits (the primary can file and elect to suspend benefits)
- > Spousal benefit is reduced up to 35% if claimed prior to the recipient's FRA
- > A divorced spouse can apply for benefits on a worker's record if he/she:
 - Was married to worker for at least 10 years
 - Divorced for at least two years
 - Is at least age 62
 - Is unmarried
 - Is not eligible for equal or higher benefits on his/her own or someone else's record

Source: Social Security Administration. [SSA.gov](https://www.ssa.gov), 2013.



Maximizing spousal benefits

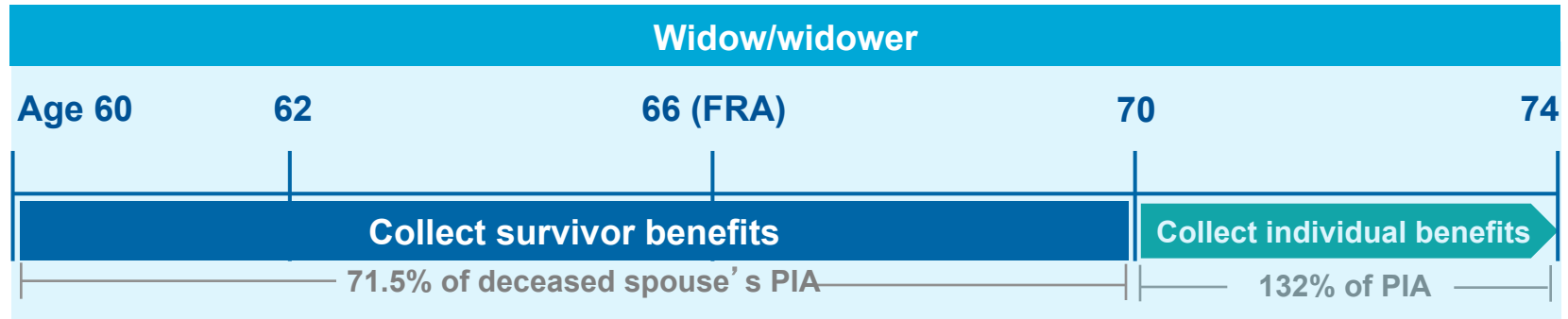
Combine early and delayed benefits to generate more income



Assumes spouses are the same age at FRA.

Survivor benefits

- > At FRA, widow(er)s can keep their own benefit or switch to the deceased spouse's benefit, if higher



- > Widow(er)s who remarry will not lose collected benefits

Rules are complex and may vary.

The impact of taxation on retirement income

Depending on how much you earn, you could pay tax on up to 85% of your Social Security benefits!

Single or Head of Household	Married Filing Joint
Combined income* \$25,000 or less	Combined income* \$32,000 or less
\$25,000 - \$34,000 → up to 50% taxable	\$32,000 - \$44,000 → up to 50% taxable
Above \$34,000 → up to 85% taxable	Above \$44,000 → up to 85% taxable

* Combined income takes into account adjusted gross income, nontaxable interest, and half of your Social Security benefit.

Source: OASDI & HI Contributions. Fast Facts & Figures About Social Security, 2012. SSA.gov. Retrieved March 2013.

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Bridging the income gap

Help increase future benefits

Essential Income Planning



Case study

- > Objective
 - Income for life for Dave (64) and Julie (62)
- > Retirement nest egg of \$800,000
 - \$500,000 Dave's 401(k)
 - \$300,000 Julie's 403(b)
 - \$ 75,000 IRAs
 - \$ 25,000 CDs
- > Monthly income
 - \$2,650 combined pensions
 - ? Social Security
- > Monthly essential expenses 5,000
- > Income gap ? monthly

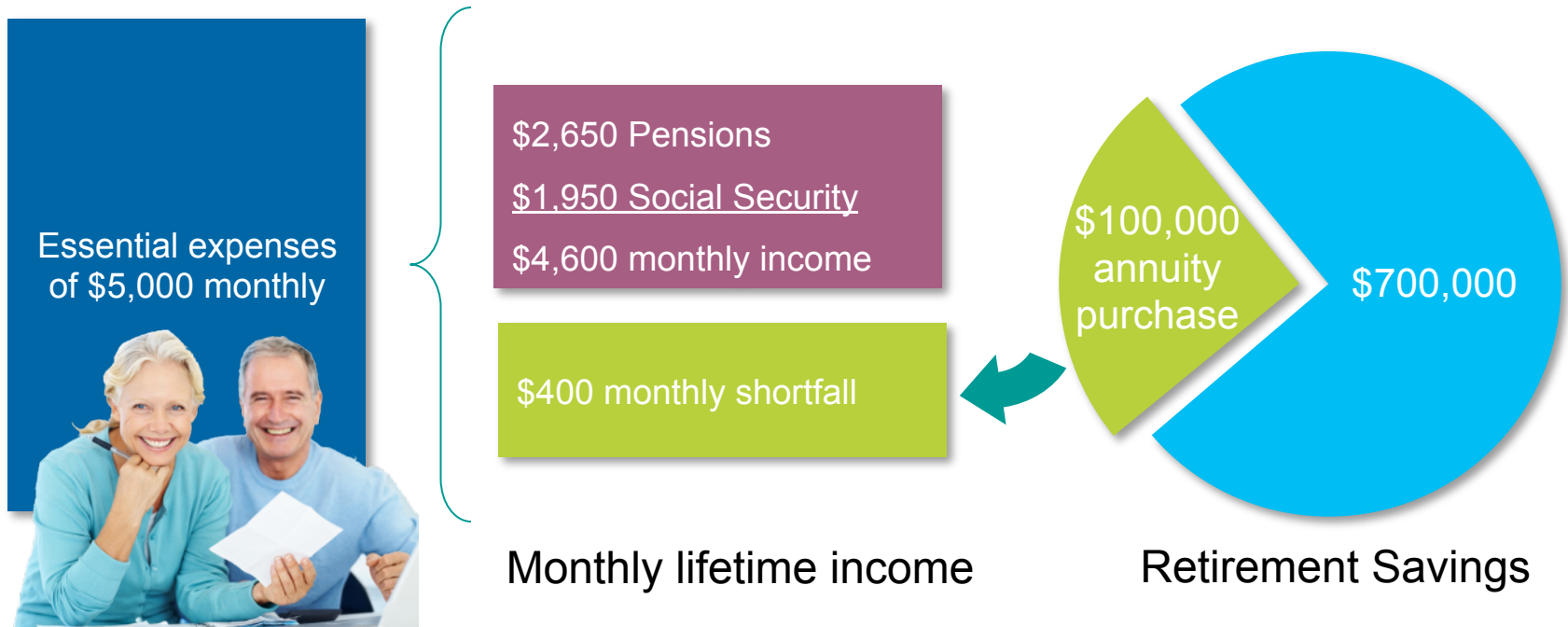


The Social Security gap

\$5,000 Essential Income need \$2,650 Pension		
Age	Social Security benefits	Gap
62	\$1462	\$890
FRA	\$1950	\$400
70	\$2574	\$0



An annuity with a lifetime guaranteed minimum withdrawal could fill the income gap



This hypothetical example is for illustrative purposes only. Annuity costs, fees, payouts, limitations and restrictions vary according to contract terms. Guarantees are backed by the claims-paying ability of the issuing insurance company.

Working in retirement

You can still receive Social Security benefits

If you are ...	You can earn up to ...*	After which you'll lose ...
Younger than FRA	\$15,120	\$1 for every \$2 you earn over limit
In the year you reach FRA	\$40,080	\$1 for every \$3 you earn over limit
in the month you reach FRA and anytime thereafter	No limit	No penalty

*Data is for 2013.

Source: Social Security Administration; ssa.gov.



4

Action steps

Action steps

1	Consider your retirement expectations
2	Assess your financial situation
3	Work with a financial advisor

Consider your expectations for retirement

- > Will you continue to work?
- > How is your health?
- > Is there a history/expectation of longevity?
- > If you are married, what is the age difference between you and your spouse?
- > Whose benefits will your spouse collect?



Assess your financial situation

Some of the benefits of financial planning are:

- Identifies the five major risks in retirement
- Provides a big picture view of your current financial situation
- Helps identify your financial goals and objectives
- Allows you to understand the impact of your decisions
- Offers you a course of action needed to achieve your financial goals
- Ensures your goals stay on track, if reviewed regularly
- Assists in identifying income gaps



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