

Retirement

SOLUTIONS

Understanding **Social Security** Benefits

No bank guarantee • Not a deposit • May lose value • Not FDIC/NCUA insured • Not insured by any federal government agency

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Presented by:

Stephanie Curry, , CLU[®], ChFC[®], CFP[®], CRC[®], CRPC[®]

Senior Retirement Strategies Group Consultant
Retirement Solutions Division
Pacific Life Insurance Company

Contact Information:

(800) 722-2333, ext. 6926

(949) 500-1659 (Cell)

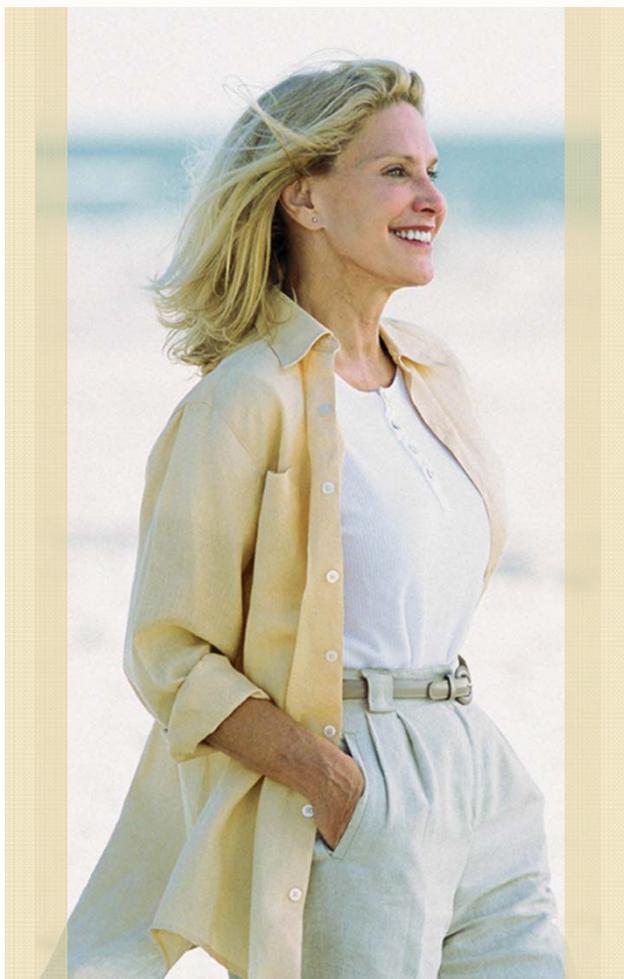
SCurry@PacificLife.com

Insurance products are issued by Pacific Life Insurance Company in all states except New York and in New York by Pacific Life & Annuity Company. Product availability and features may vary by state.

Important Information

Please note that this presentation has been designed to provide general information. Neither Pacific Life nor its representatives offer legal or tax advice. Clients should consult their attorneys and tax advisors as to the applicability of this information to their specific circumstances and for complete up-to-date information concerning federal and state tax law.

Agenda



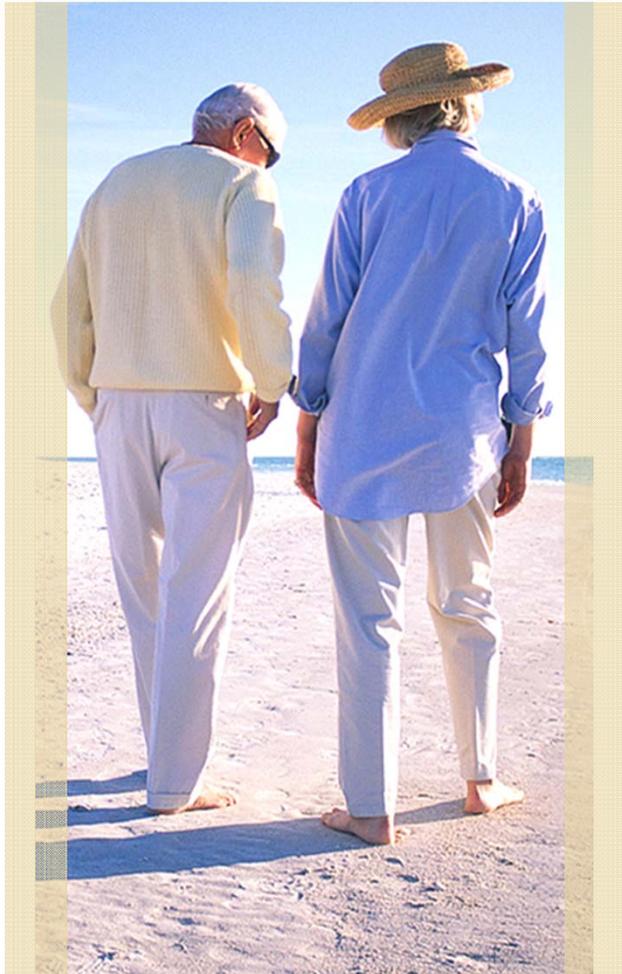
- History and Overview
- Eligibility
- Primary Insurance Amount
- Taxation
- Working Prior to Your Full Retirement Age
- Planning
- Understanding Annuities
- Next Steps

History

- Signed into law August 14, 1935
- Began benefit accrual January 1, 1937
- Initially, lump-sum benefit
- Monthly payments began in 1940
- Automatic cost-of-living adjustments (COLAs) started in 1975
- Partial taxation of benefits effective 1984

Source: Social Security Administration. "Social Security History"
<http://www.socialsecurity.gov/history/index.html>. May 27, 2015.

Social Security



Collection of programs:

- Retirement
- Disability
- Survivor's benefits
- Lump-sum death benefit

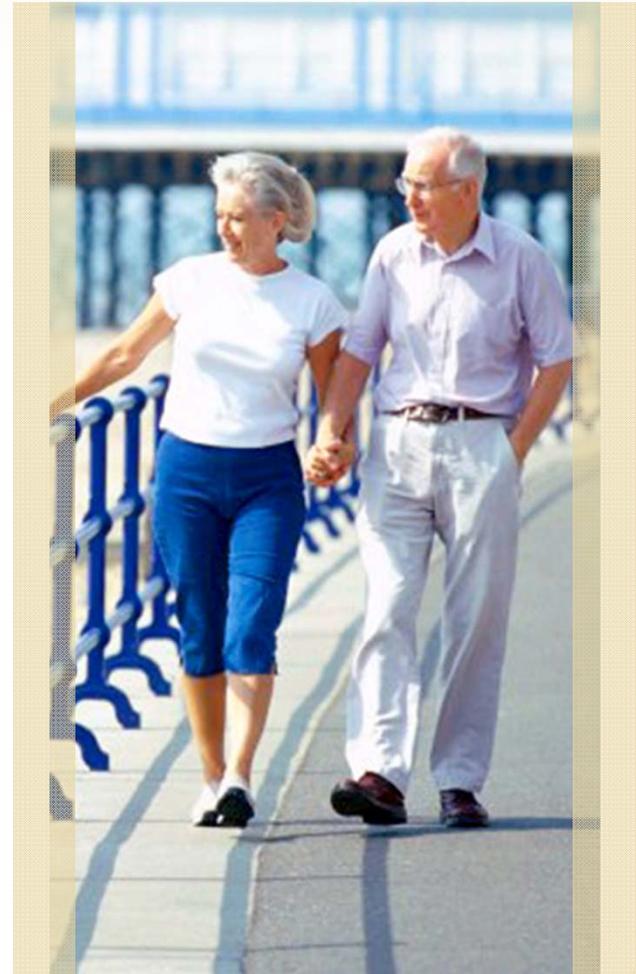
Social Security Benefits

2015 Estimated Average Monthly Benefit with COLA	
All retired workers	\$1,328
Aged couple, both receiving Social Security	\$2,176
Widowed mother and two children	\$2,680
Aged widow(er) alone	\$1,274
Disabled worker, spouse, and one or more children	\$1,976
All disabled workers	\$1,165

Source: Social Security Administration. "Social Security Fact Sheet: 2015 Social Security Changes." *SSA Press Office*. May 7, 2015.

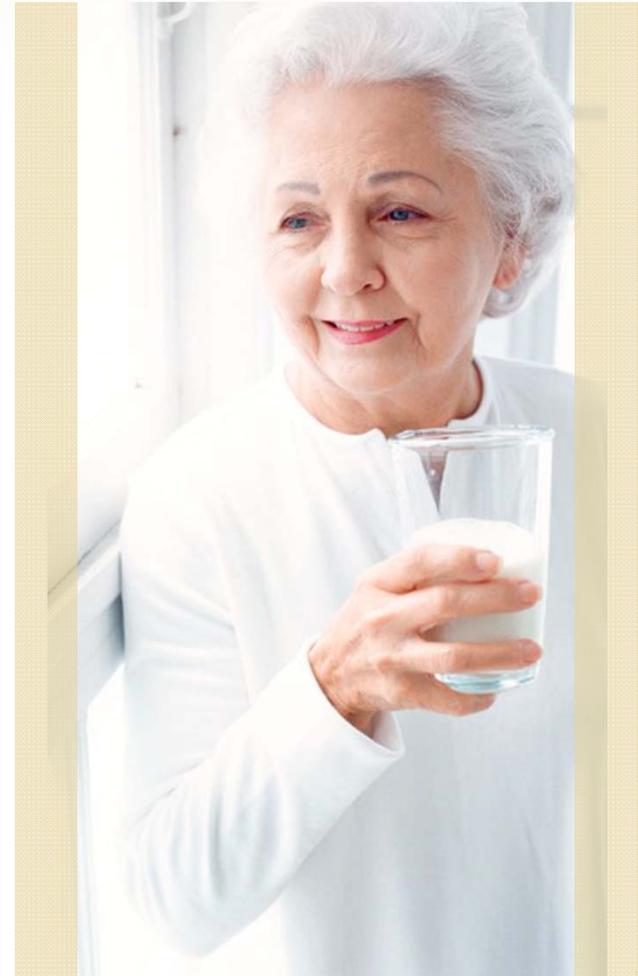
Worker Eligibility for Retirement

- Earned 40 credits of coverage
- Credit of work is equal to \$1,220 of earned income
- Only four credits may be accumulated annually



Social Security Survivor Eligibility

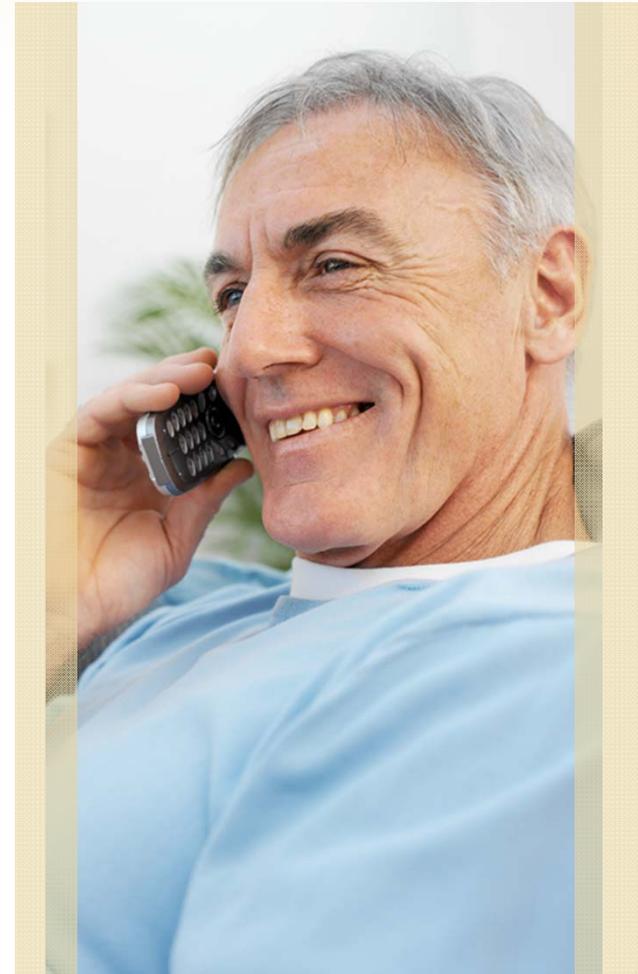
- Credits needed vary by age of worker at death
- No more than 40 credits of coverage necessary
 - Typically equates to 10 years of work
- Survivor benefits are available to the dependents of a deceased worker who has worked 1½ years of the prior three years



Social Security Nonworker Eligibility

Survivor benefits

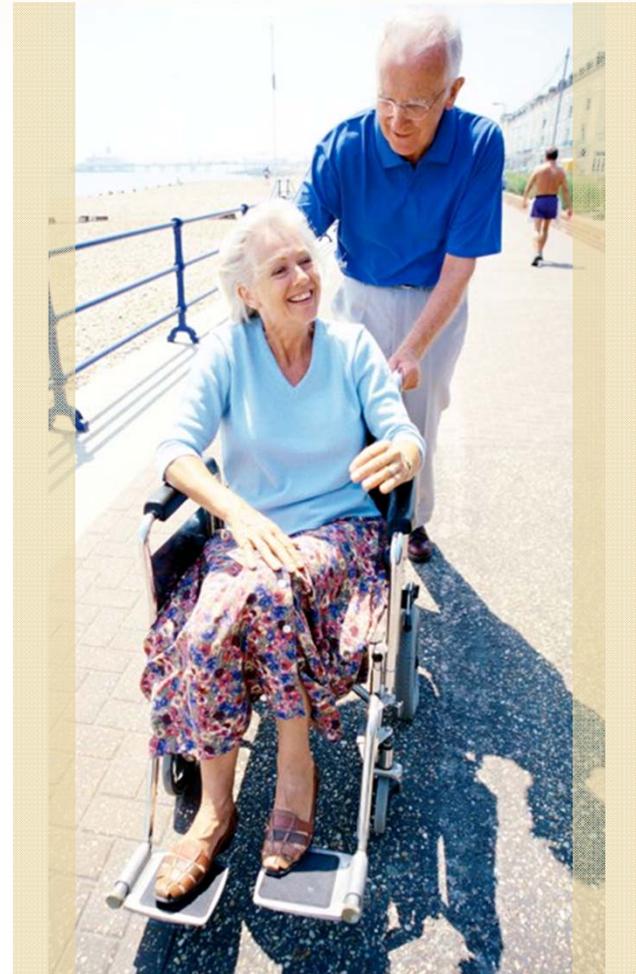
- **Widow/Widower: full retirement age (FRA)**
 - Reduced benefits – age 60 (age 50 if disabled)
- **Widow/Widower: takes care of children**
 - Younger than age 16 or disabled
- **Unmarried children**
 - Younger than age 18
 - Age 19 if attending school full time
- **Dependent parents**
 - Age 62 or older
- **Divorced spouse**
 - Marriage lasted at least 10 years



Disabled Worker Eligibility

- Earned six credits for disability or death benefits
 - In 2015, one credit for each \$1,220 of earnings
- Two different “earnings tests”
 - Recent work test
 - Duration of work test

Source: Social Security Administration. “Publication 05-10029, Disability Benefits.” May 2014.



Social Security Primary Insurance Amount (PIA)

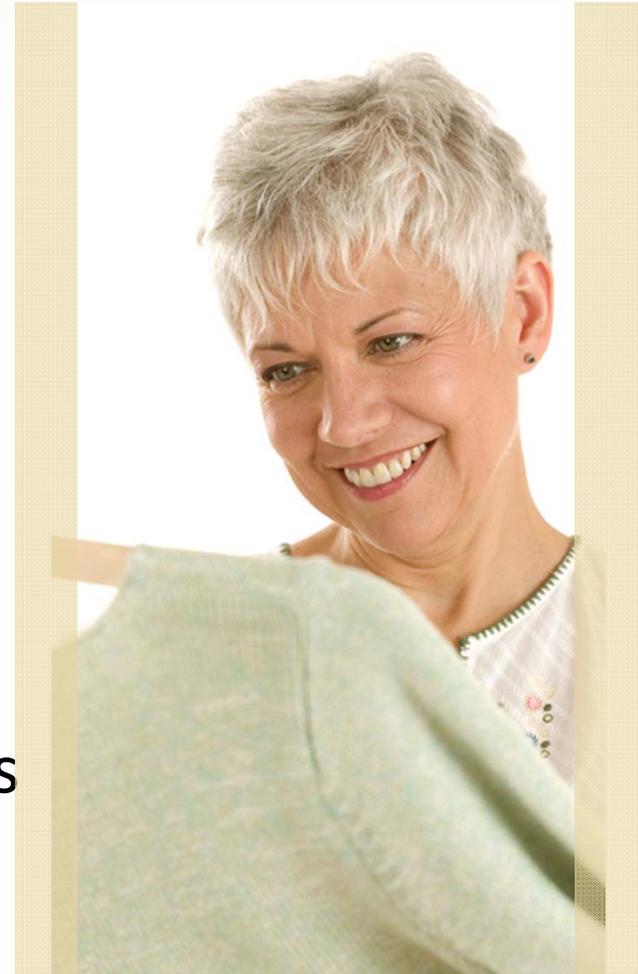
- Calculated on average monthly earnings
 - 35 highest earning years
 - In 2015, employer and employee each contribute 6.2%
 - In 2015, employee contributes 6.2%
 - Maximum benefit base
- Determines benefits paid
- Reductions and increases
 - Determined by age when benefits start

Social Security Retirement Benefits

- Reduced benefit at age 62
- Full retirement age (FRA) dependent on year of birth
 - 2015 FRA is 66 years if born between 1943 and 1954
- Maximum benefit at age 70
- COLA

Early Retirement

- Earliest retirement at age 62
- Earnings history
 - Social Security provides larger percentage of replacement income to lower-wage-earner's income
- Reduction of benefit
 - 25% – 30% depending on FRA
- Family history and marital status



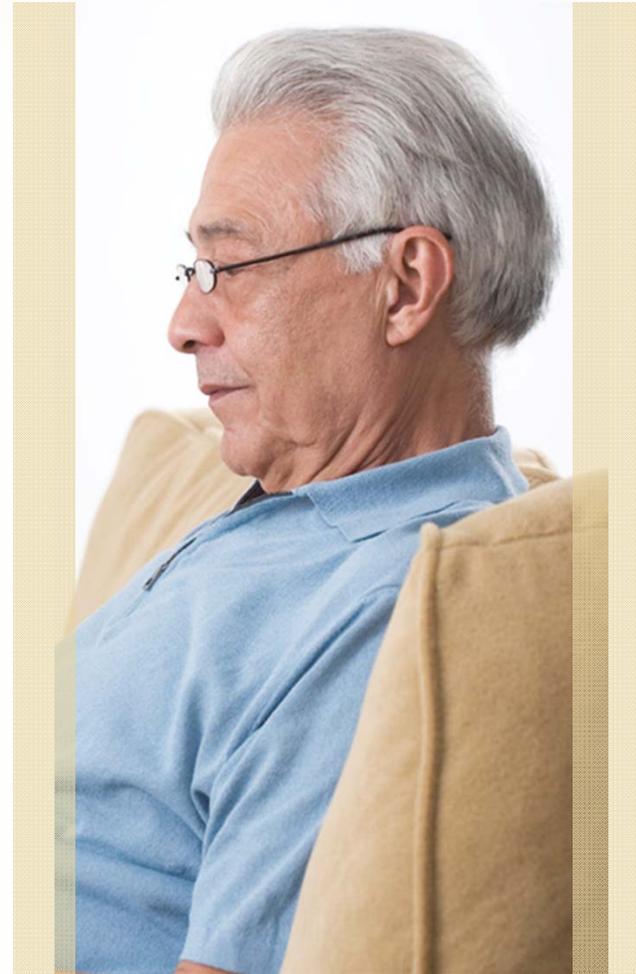
Full Retirement Age

Year of birth	Full Retirement Age
1937 and prior	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943-54	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 month
1959	66 and 10 months
1960 and later	67



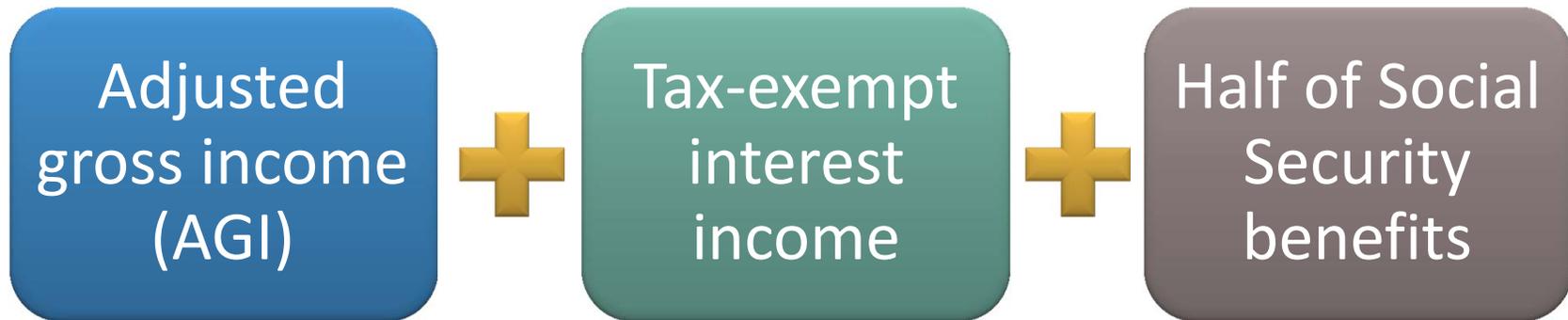
Delayed Retirement

- Retirement at age 70
- Maximum benefits
- 8% delayed retirement credit
- If FRA 66
 - 32% increase
- If FRA 67
 - 24% increase



Benefit Taxation

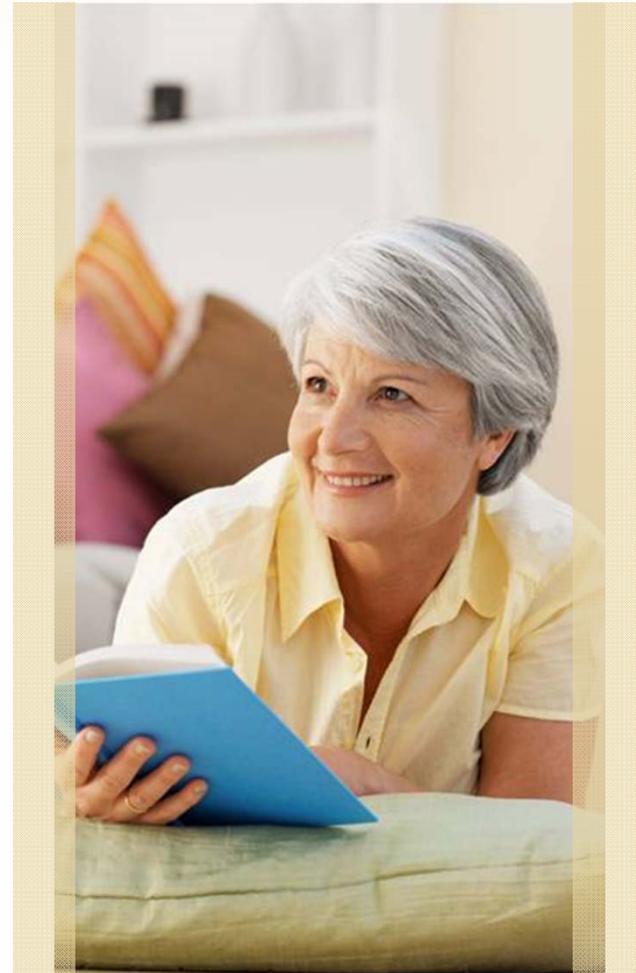
What constitutes combined income?



Benefit Taxation—Individual

- Combined income between \$25,000 and \$34,000
 - Up to 50% of your benefits may be included as income
- Combined income more than \$34,000
 - Up to 85% of your benefits may be included as income

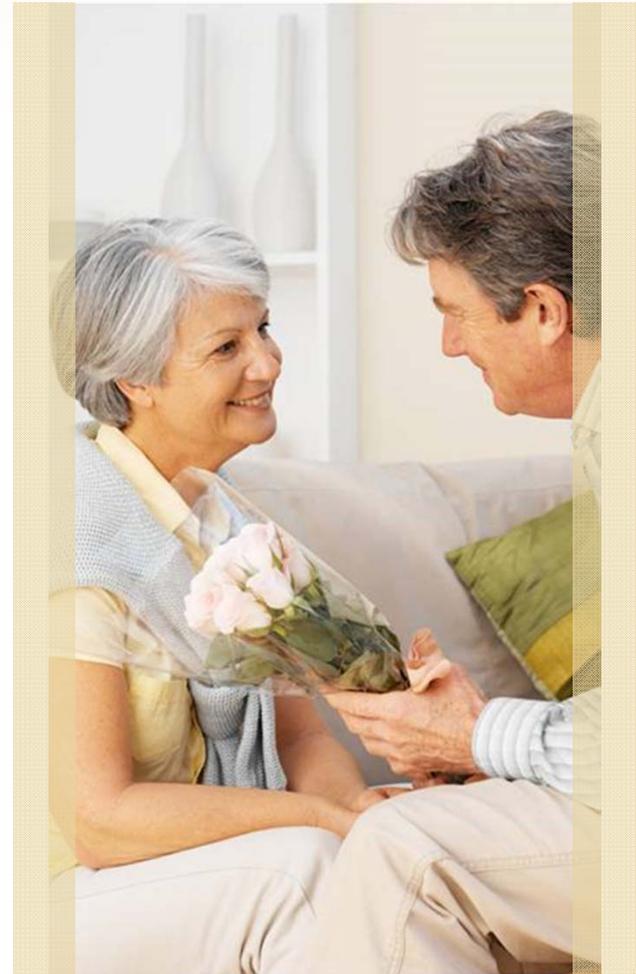
Source: Social Security Administration. “Publication 05-10035, Retirement Benefits.” January 2015.



Benefit Taxation—Joint

- Combined income between \$32,000 and \$44,000
 - Up to 50% of your benefits may be included as income
- Combined income more than \$44,000
 - Up to 85% of your benefits may be included as income

Source: Social Security Administration. “Publication 05-10035, Retirement Benefits.” January 2015.



Benefit Reduction

- Begin collecting prior to FRA and continue working
- Younger than FRA in 2015 for the entire year
 - Deduct \$1 from your benefit payments for every \$2 you earn more than the annual limit
 - For 2015, that limit is \$15,720
- FRA in 2015
 - Deduct \$1 in benefits for every \$3 you earn more than \$41,880
 - Only earnings before the month you reach your FRA
- Beginning in the month you reach your FRA
 - There is no limit on earnings

Retirement Planning

Early



Full Retirement Age



Delayed



Retirement Planning

Age	Action Taken	Dana's Benefit	David's Benefit
62	Claim at age 62	\$750/month	\$1,500/month
66	Wait until full retirement age (FRA)	\$1,000/month	\$2,000/month
70	Captured delayed retirement credit	\$1,300/month or \$2,600/month if husband delayed benefits until age 70	\$2,600/month

When Should You Begin Benefits?

- Personal decision based on your needs and probable life expectancies
- Healthy individual may delay
- Less healthy individual may begin at age 62
- You may delay to increase future benefits to a younger spouse

Newly Added Boomers: Same-Sex

Social Security now processing claims based on same-sex relationships

- On June 26, 2013, Supreme Court ruled Section 3 of Defense of Marriage Act (DOMA) unconstitutional
- Since the ruling, Social Security has begun recognizing some same-sex relationships
 - Published complex set of new instructions
- In Social Security's own words:

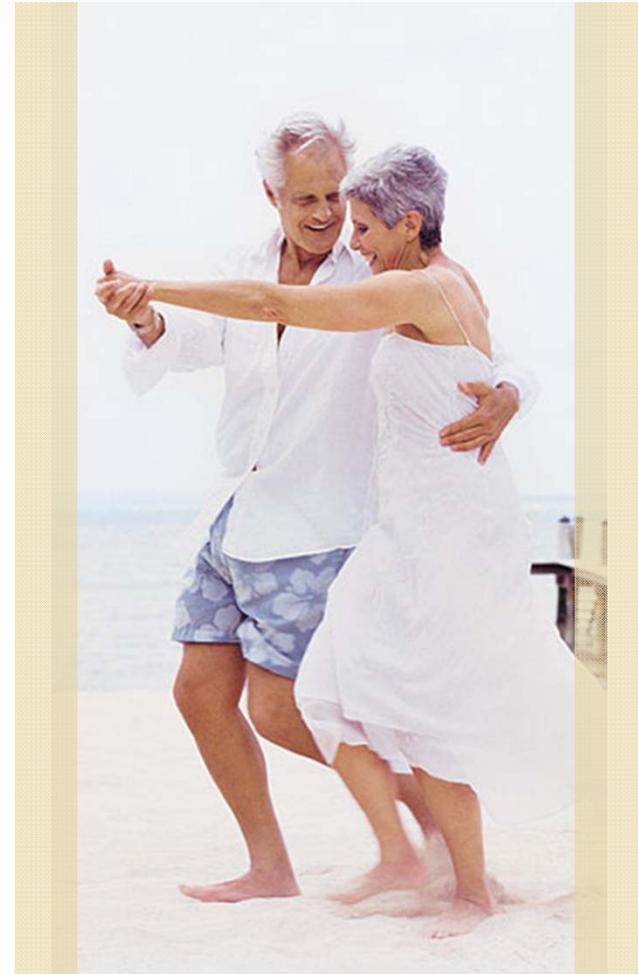
From the Horse's Mouth

This latest policy development lets the agency recognize some non-marital legal relationships as marriages for determining entitlement to benefits. These [new] instructions also allow Social Security to begin processing many claims in states that do not recognize same-sex marriages or non-marital legal relationships. We [the Social Security Administration] have consulted with the Department of Justice and determined that Social Security Act requires the agency to follow state law in Social Security cases.

Source: Social Security Administration. "Social Security Defines Policy for Same-Sex Married Couples." June 20, 2014.

Lifetime Income Sources

- Social Security
- Defined-benefit pension plans
- Annuities



What Is an Annuity?

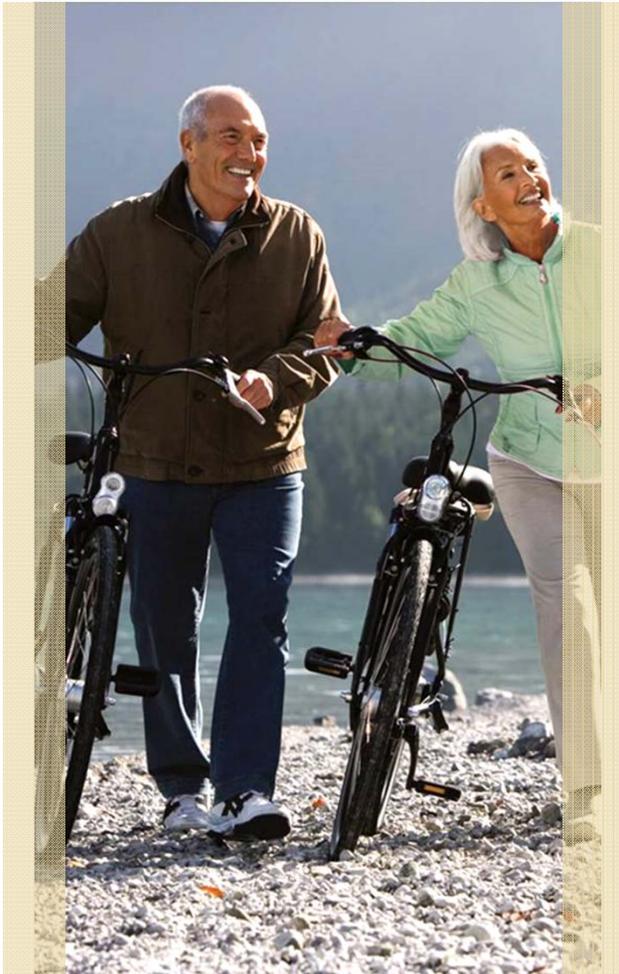
It can provide guaranteed:

Lifetime income options

Death benefit to protect beneficiaries

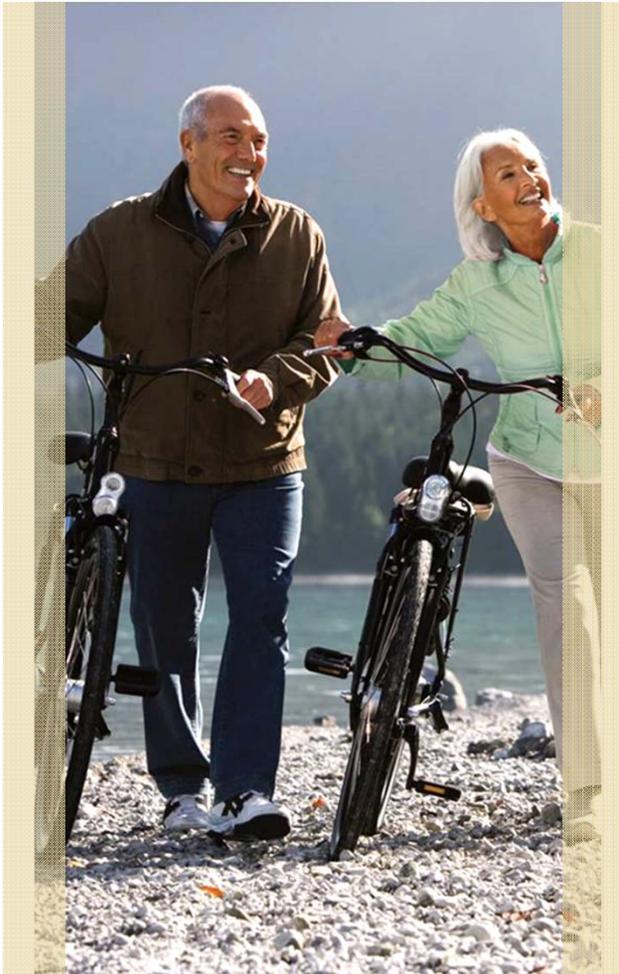
Guarantees, including optional benefits, are subject to the issuing company's claims-paying ability and financial strength and do not protect the value of the variable investment options, which are subject to market risk.

Types of Annuities



- **Single vs. Flexible Premium**
 - One-time lump sum
 - Ongoing contributions
- **Fixed vs. Variable**
 - Guaranteed a fixed rate of return
 - Subject to market risk
- **Deferred vs. Immediate**
 - Wait to take income
 - Begin taking income immediately

Types of Annuities



- **Deferred Fixed Annuities**
 - Guaranteed minimum interest rate
- **Deferred Variable Annuities**
 - Professional money managers
 - Multiple investment options
- **Immediate Annuities**
 - Single lump-sum investment
 - Help maximize and protect income for life

Why Choose an Annuity?

Potential tax advantages

Lifetime income payout options

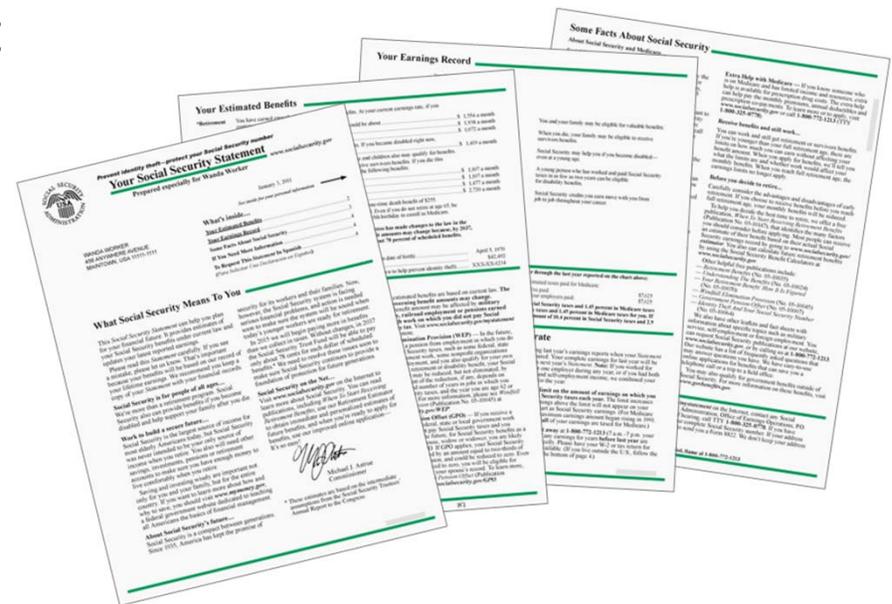
Guaranteed death benefit

Optional living benefit riders

The value of the variable investment options will fluctuate and, when redeemed, may be worth more or less than the original cost. Annuity withdrawals and other distributions of taxable amounts, including death benefit payouts, may be subject to ordinary income tax. For nonqualified contracts, an additional 3.8% federal tax may apply on net investment income. If withdrawals and other distributions are taken prior to age 59½, an additional 10% federal tax may apply. A withdrawal charge and market value adjustment (MVA) also may apply. Withdrawals will reduce the contract value and the value of the death benefits, and also may reduce the value of any optional benefits.

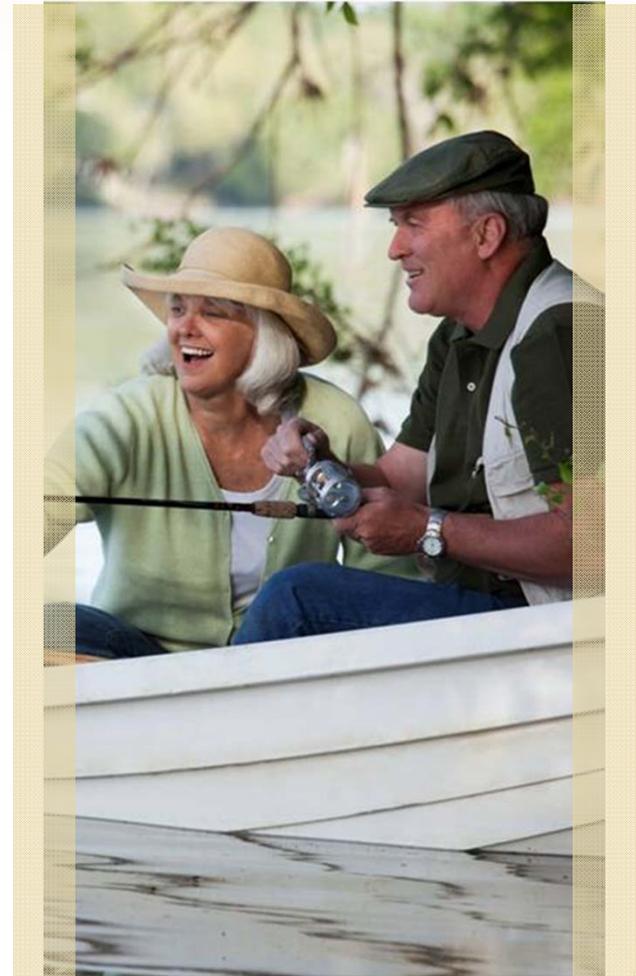
Next Steps

- Become familiar with your Social Security statement
 - Now mailed every five years for most workers at ages 25, 30, 35...
 - Also available online at MySocialSecurity Account
- Understand how your PIA will be impacted by
 - Early or delayed retirement
 - Earned income
 - Taxation



Next Steps (continued)

- Certain financial products may help you bridge the gap
 - Annuities
- Contact your financial professional to help determine the optimal strategy for allocating assets and taking Social Security income



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Pacific Life Insurance Company
P.O. Box 2378, Omaha, NE 68103-2378
(800) 722-2333

In New York, Pacific Life & Annuity Company
P.O. Box 2829, Omaha, NE 68103-2829
(800) 748-6907

www.PacificLife.com