Social Security and Your Retirement

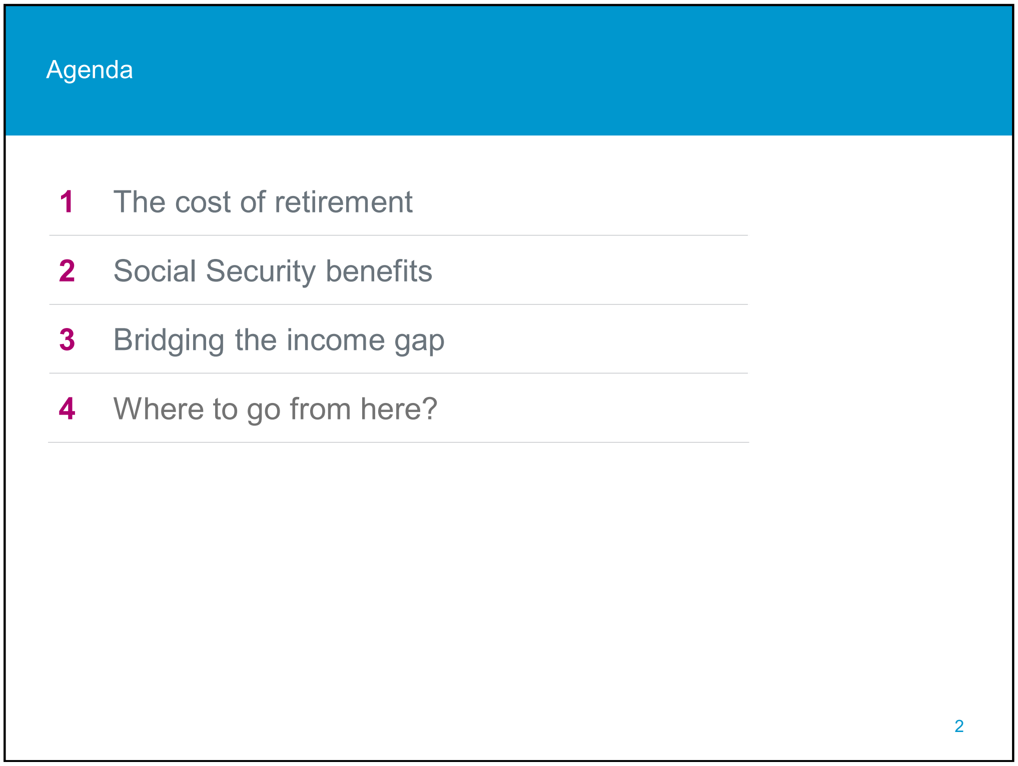
Understanding your benefit options

FUTUREFIT® FINANCIAL WELLNESS SERIES

Cody Gilbert
VP, Career Distribution

VALIC
An AIG company

With essential living expenses like housing, food, fuel and insurance premiums rising, some of you may be tempted to put off saving for your retirement. It may not seem important to save for retirement when you need money now; especially if your retirement seems far away. On the other hand, some of you would like to save for retirement, but you feel that your budget is already overextended. Still, others of you may be wondering what will happen to your money if you leave your current employer. Or, maybe you're not sure you'll have access to your money when you need it. It's natural to have these concerns; especially in today's economy.

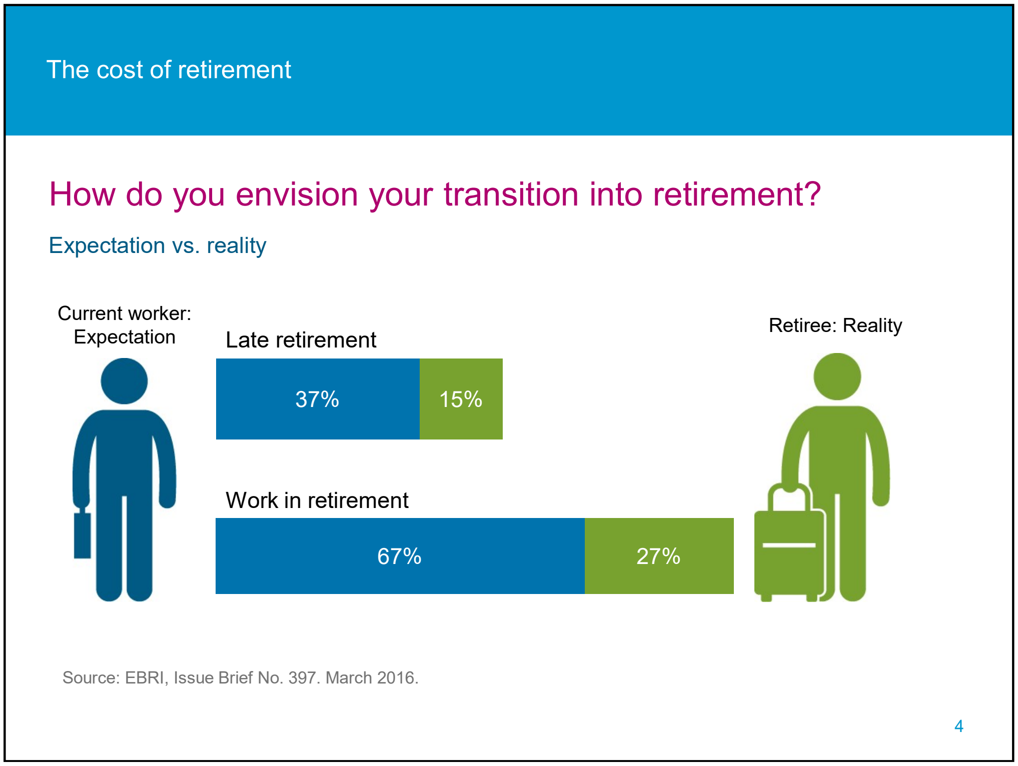


Today, we'll cover these topics. ***[Read slide.]***

At the end of my presentation, I would sincerely appreciate your feedback. The evaluation form is an insert in your workbook ***[presenter, you may ask the audience to tear it out now so it is ready at the end of the presentation]***. Please complete it and leave it with me when the session ends. Thank you in advance for your feedback.

The cost of retirement

Before we discuss the Social Security program, let's look at your expectations for retirement and the related expenses you can expect.



The expectations of workers planning for retirement are often very different from the experiences current retirees report. Here are some categories to consider:

- **Aiming for later retirement.** Overall, pre-retirees plan to retire at a considerably older age than retirees actually retired. This might be a result of workers not being confident about their financial security in retirement. While about 37% of current workers plan to retire after age 65, the reality is that only 15% of current retirees were able and willing to work past age 65. The median retirement age for retirees was age 62. Job loss, health problems or family circumstances often push people into retirement ahead of schedule. Ten percent of workers say they never plan to retire.
- **Planning on working in retirement**. While 67% of workers polled plan to continue working in retirement, in reality, only 27% of retirees reported continued employment in retirement. While you may plan to work, that doesn't guarantee that you will remain employed, find new employment or still want or be able to work in your late 60s.

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	$ 1,596	$ 1,331	$ 698	**-56%**
Entertainment	$ 3,323	$ 3,005	$ 1,728	**-48%**
Food & alcohol	$ 7,566	$ 6,665	$ 4,805	**-36%**
Healthcare	$ 5,112	$ 5,715	$ 5,814	**14%**
Housing	$18,188	$16,465	$14,253	**-22%**
Personal insurance & pensions	$ 7,664	$ 3,686	$ 1,425	**-81%**
Transportation	$10,024	$ 8,028	$ 5,228	**-48%**
Total expenditures	$53,473	$44,895	$33,951	**-36%**

Total expenditures for those age 75+ are 36% less than those aged 55 – 64.

Source: U.S. Department of Labor, Bureau of Labor Statistics, Consumer Expenditure Survey, 2015.

5

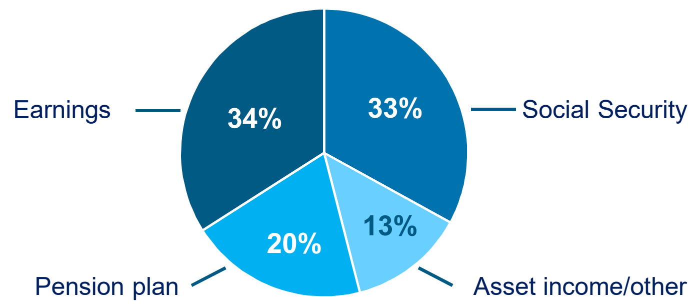
Assuming an average lifestyle, it is estimated that you will need approximately 80% of your preretirement income.[1] This figure assumes certain changes in your lifestyle post-retirement. Take a look at this chart to get a better idea of what these changes might entail. Although you may find yourself spending more on healthcare at age 75 than you did at age 55, other expenses such as clothing, entertainment, food and transportation are greatly reduced. In addition, you may no longer owe on a mortgage or contribute to your workplace retirement plan, further reducing your expenses in retirement. Total expenditures for those age 75+ are 36% less than those aged 55 – 64.

Keep in mind that you will also have to account for the impact of inflation on your retirement income.

Source: [1]Retirement Benefits. SSA Publication No. 05-10035. Social Security Administration. January 2015.

The cost of retirement

Sources of retirement income



Please note that this is just one scenario and the sources of retirement income will vary depending on your individual situation.

Source: Income of the Aged Population, Shares of Aggregate Income by Source, 1962 and 2015. Fast Facts and Figures About Social Security, 2017. SSA Publication No. 13-11785. Released September 2017.

6

The realities of today's retirement can be daunting. So, where will your retirement income come from? Retirement income traditionally depended on three sources: Social Security, retirement plan or pension plan and savings. With fewer employers still offering pension plans to new employees and Social Security only intended to supplement part of your retirement income, you have a bigger responsibility to self-fund your retirement with other income sources, such as with savings or even the growing option of working in retirement. Will you need to continue working?

Keep in mind that the percentages will vary depending on your individual situation and everyone's pie is different. When planning for retirement, you will need a financial plan to account for income from other sources to supplement your Social Security benefits.

Social Security benefits

Let’s discuss the basics and benefits of the Social Security program.

Social Security benefits

The basics

① Funding

- Payroll taxes
- Self-employment taxes

② Eligibility

- 40 credits of working service (equal to about 10 years)
- Full retirement age varies depending on birth year

③ Retirement age

Year of Birth	Full Retirement Age (FRA)
1943 – 1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

Social Security benefits are based on the average of your 35 highest years of earnings

Source: Social Security Administration; ssa.gov.

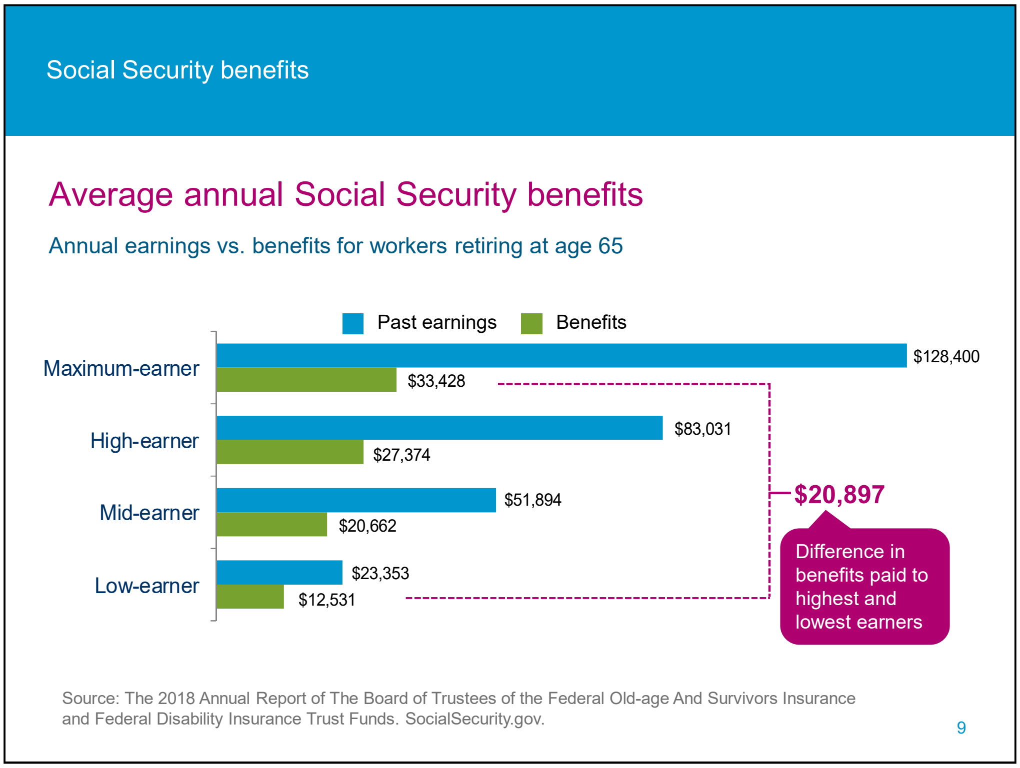
8

[This slide has automatic animations. No need to click through.]

Social Security is a federal insurance program that provides income each year to retired persons and the disabled. It is not savings or charity; it is funded through your payroll or self-employment taxes.

To be eligible for Social Security, you must have accumulated 40 credits worth of working service. This adds up to about 10 years of paying Social Security taxes. Once you have accumulated your 40 credits, you are eligible to receive 100% of your entitlement at your Full Retirement Age (FRA).

Historically, full retirement age was 65, but it was increased and could be, again. Currently, your full retirement age is determined by the year you were born. ***[Review chart.]*** Congress attributes the FRA change to improvements in health and increases in the average life expectancy. Social Security benefits are based on the average of your highest 35 years of earnings up to a maximum amount. If you haven’t worked at least 35 years or if you had low income in many of those years, working longer may add higher earnings into your work record, resulting in greater Social Security benefits at retirement.



[This slide has animations.]

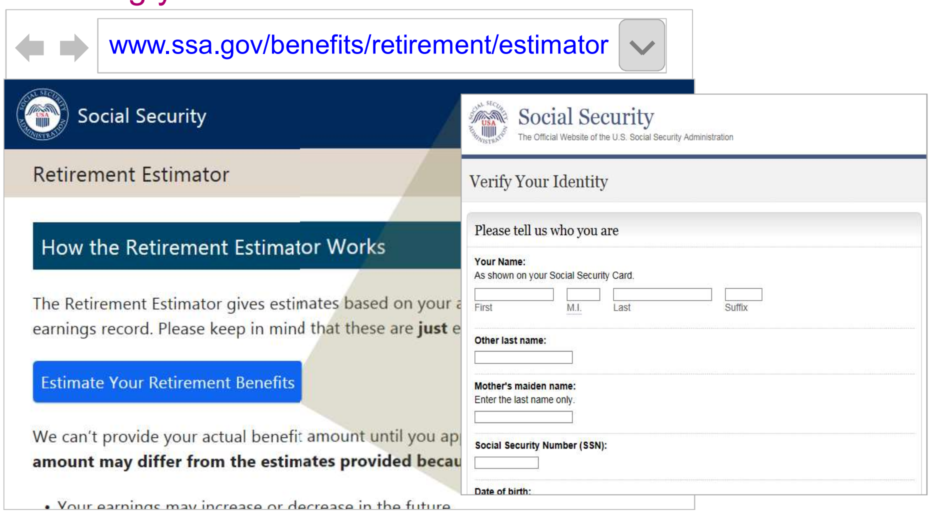
Social Security benefits are progressive: the higher your earnings, the higher your benefit will be. Social Security automatically factors in a cost of living adjustment (COLA) and your benefits automatically increase each year to keep pace with inflation.

This graph shows current annual Social Security benefits paid to workers retiring at age 65. Notice that despite the large difference in past earnings between the maximum-earner and low-earner, there's about a $20,000 difference in Social Security benefits received between both beneficiaries.

Keep in mind that COLA increases, along with your other income sources, may not be enough to keep up with inflation.

Social Security benefits

Estimating your benefits



Source: SocialSecurity.gov.

10

[This slide has automatic animations.]

To get an idea of how much guaranteed income Social Security can provide, the Social Security Administration provides an online Retirement Estimator tool that will provide you with your earnings record, an overview of your benefits, and assist you in calculating your estimated benefits upon retirement. To use this online tool, create an account and input your personal information and Social Security number. You'll get the most recent updates of how much you will receive at age 62, Full Retirement Age and age 70.

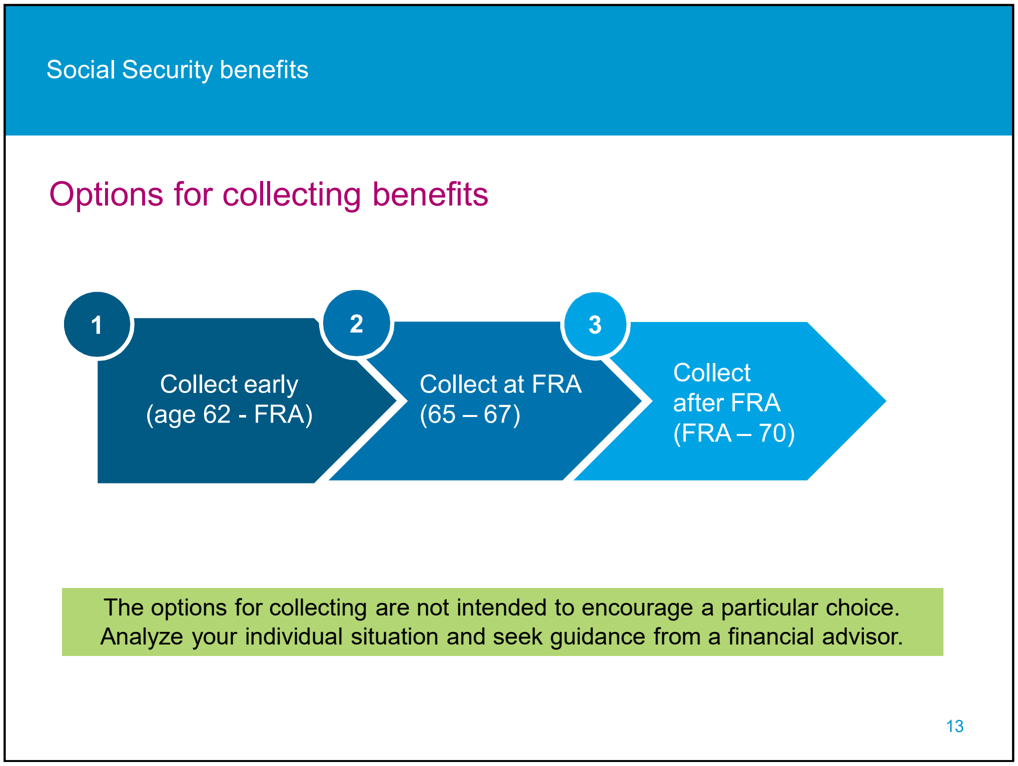
[This slide has automatic animations.]

Did you know your Social Security statement is no longer mailed to you? But it's easy to get your statement online at ssa.gov! Simply create your Social Security account today to download your Social Security statement.

[This slide has animations.]

So when should you begin taking your Social Security benefits? There is not a "one size fits all" recommendation, since individual circumstances vary, and you only get one chance to get it right. Some factors to consider include:

- 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, and
- The amount of your future Social Security benefit



[This slide has animations.]

So, taking these factors into consideration, you have 3 main options for when to start taking your benefits:

1. **Take early payments between ages 62 and Full Retirement Age (FRA).** However, you will be penalized with smaller monthly benefit payments than you would receive at FRA.
2. **Start benefits at FRA.** This is the age at which you receive full benefits from Social Security.
3. **Delay and get even more.** Delay up to age 70, your benefits will increase if you delay filing.

Choosing when to begin taking Social Security benefits may be one of the most important decisions you make in your retirement planning process.

Let's discuss how these options work.

Please note that by discussing the different options for collecting Social Security benefits, I'm not encouraging a particular choice. If you wish to discuss your individual situation, please check "yes" on the evaluation form and I will help you analyze your options based on your individual circumstances.

Social Security benefits

1. Collect early

Social Security benefits can start at age 62, but will be reduced by as much as 30%

Reasons	Pro	Cons
> Illness or unemployment > You have a short life expectancy > You need the money immediately to make ends meet	> You would collect income over a longer period of time	> Your monthly Social Security benefit amount would decrease > You will be penalized if you continue working and earn over allowed maximum amount

14

[This slide has animations.]

Historically, most Americans have considered 65 to be their target retirement age. However, there may be several reasons to leave the workforce at an earlier age. These may include: ***[review the reasons.]***

Regardless of the circumstances, an advantage to early retirement is that you will collect Social Security benefits for a longer period of time. ***[Click to reveal pros.]***

However, the cons to collecting early may outweigh the pros of collecting for a longer period of time. ***[Click to reveal cons].*** First, you will see a decrease in your monthly Social Security benefit. And, if you collect early and continue working, you will be penalized for any earnings that exceed the allowed maximum amount established by Congress for working beneficiaries (50% of the “excess” earnings are deducted from the Social Security benefits).

So, how are your Social Security benefits affected by early retirement? Let’s review.

Social Security benefits

2. Collect at Full Retirement Age (FRA)

Receive 100% of Social Security benefits

Reasons	Pros	Con
> You can afford to wait until FRA to begin receiving benefits > You are in good health and expect to live long past your FRA	> You receive 100% of your Social Security benefits > You add more earnings to your work record	> You forego an even larger monthly benefit by not waiting longer

15

[This slide has animations.]

The second option is to start benefits at FRA. You might choose that course because: ***[review the reasons]***. By claiming at FRA or later, you'll be able to receive 100% or more of your Social Security benefits. ***[Click to reveal pros.]*** Plus, you'll have the opportunity to add more earnings to your work record. Social Security benefits are based on the average of your highest 35 years of earnings up to a maximum amount. If you haven't worked at least 35 years or if you had low income in many of those years, working longer may add higher earnings into your work record, resulting in greater Social Security benefits at retirement.

However, had you waited longer ***[click to reveal con]***, you would have collected an even larger monthly benefit.

Social Security benefits

3. Collect after Full Retirement Age (FRA)

Benefits will increase by up to 8% per year

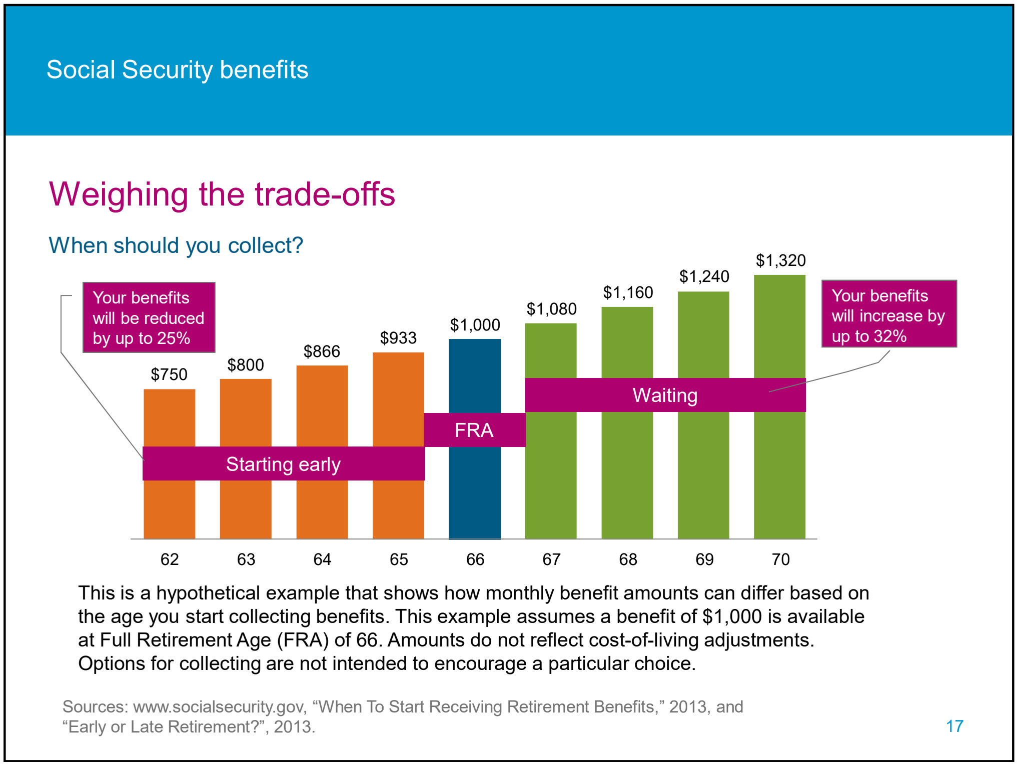
Reasons	Pro	Con
> You need the maximum monthly benefit to meet your expenses > You are in good health and expect to live long past your FRA	> Your benefit payments would increase each year, depending on your year of birth – Increases end after you reach age 70, even if you continue to delay taking benefits	> You could receive benefits for a shorter period of time, depending on longevity

Source: Social Security Administration; ssa.gov.

16

[This slide has animations.]

Reasons to delay benefits (up to age 70), may be the same as if you chose to collect at FRA. However, doing so maximizes your Social Security monthly benefit payment amount ***[click to reveal pros]***, allowing more “deferral credits” to accrue, which increase your benefits by up to 8% a year if you were born after 1943. However, depending on your longevity ***[click to reveal con]***, you could be collecting benefits for a shorter period of time. The later you claim, the more you can receive!



Now that we have reviewed the different options for when to collect Social Security benefits, here is a hypothetical example that shows how monthly benefit amounts can differ based on the age you start collecting benefits. This example assumes a benefit of $1,000 is available at Full Retirement Age (FRA) of 66.

- If you start collecting early—prior to your FRA—and you were born in 1943 – 1954, your benefits will be reduced by up to 25%.
- If you wait and start collecting after FRA and you were born in 1943 or later, your benefits will be increased by up to 32%.

Note that percentage reduction varies depending on your year of birth and FRA.

Please keep in mind that the options for collecting are not intended to encourage a particular choice. Analyze your individual situation and you might want to seek guidance from a financial advisor.

Social Security benefits

Finding the break-even point

Life expectancy	Collect benefits at: Age 62 Monthly benefit $750	FRA of 66 Monthly benefit $1,000	Age 70 Monthly benefit $1,320
62	$9,000	$0	$0
66	$45,000	$12,000	$0
70	$81,000	$60,000	$15,840
75	$126,000	$120,000	$95,040
78	$153,000	**$156,000** Break-even	$142,560
80	$171,000	$180,000	$174,240
82	$189,000	$204,000	**$205,920** Break-even
85	$216,000	$240,000	$253,440

This is a hypothetical example. Amounts shown do not reflect any cost-of-living adjustments.

This break-even point analysis is not intended to either encourage or discourage you to claim Social Security 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.

Source: Social Security Savvy: Making Smart Decisions About Your Retirement Income.

18

[This slide has animations.]

When deciding when you should retire, you may want to consider your break-even point. What is the break-even point? If you file earlier, your payments are smaller, but you collect several payments at the start that you would miss out on if you waited. Filing later means you will miss several payments, but your payments will be higher once they start. The break-even point is the filing age at which the higher payments you will receive from filing later make up for the payments you missed while waiting.

While it's impossible to know exactly how long you will live, you can make a reasonable guess about your longevity based on your current health and your family history. If you expect a shorter retirement due to health or other reasons, you may want to claim early, even with reduced benefits. Taking a smaller benefit early can pay off if you don't live past your break-even age.

Take a look at this hypothetical illustration. Assuming a monthly benefit of $1,000 at FRA of 66, it illustrates the total income you would receive if you claimed Social Security at age 62, 66 and 70.

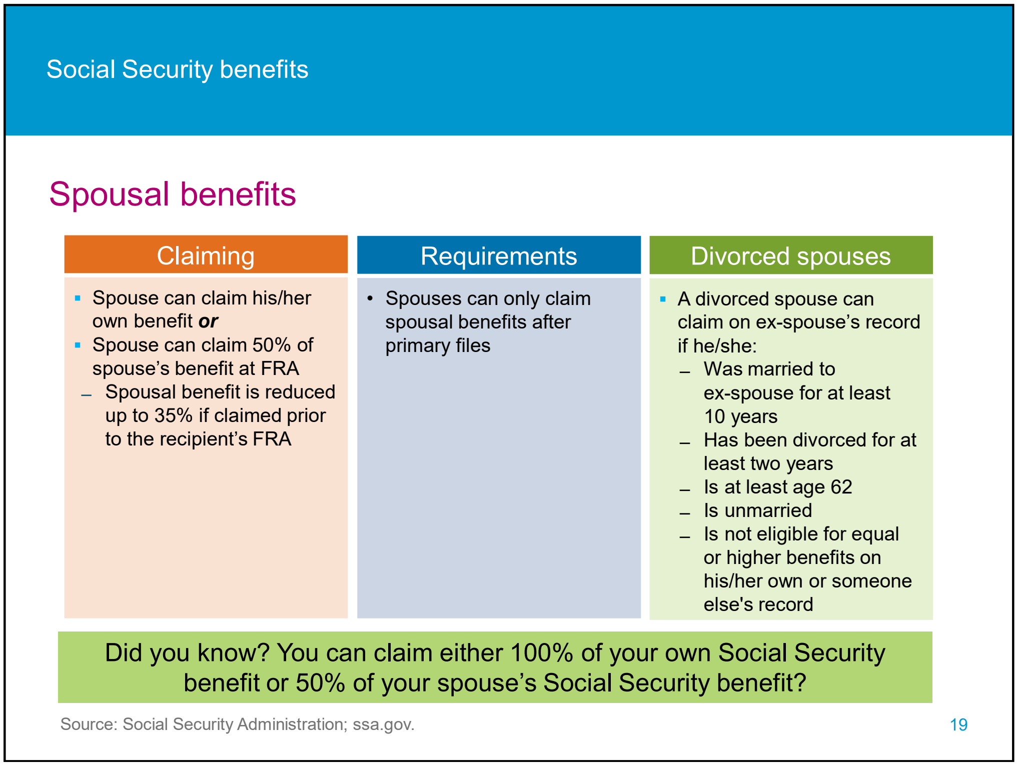
Even though taking early payments at age 62 means a reduced monthly benefit of $750 (75% of $1,000), this strategy would still provide you with more total income up to age 78, at which point delaying payments to age 66 would have been the better choice. ***[Click to reveal break-even point.]***

Likewise, if you lived past age 82, you would have been better off waiting until age 70 to start Social Security. ***[Click to reveal break-even point.]***

After you reach the break-even point, a lower benefits check continues to be low every month for the rest of your life, and a higher benefits check continues to be high. That’s why people who choose to receive Social Security benefits early often consider their break-even age the point at which they begin to lose money.

If, for example, your break-even age is 78 and you think you could live to be 100, you might opt to receive larger checks later.

It is interesting to note: Research shows that people who are exposed to break-even analysis and other models that focus on losses rather than gains tend to file earlier. ***[Click for disclaimer to appear.]***



Now that you understand your options for collecting retirement benefits, let's review your filing options.

Another way to help increase your Social Security benefits is by capitalizing on spousal benefits. Married individuals can claim the greater of their:

- **Own benefit** based on their individual earnings or
- **50% of their spouse's benefit at FRA**. This is known as the "spousal benefit."

Similar to your own benefit, the spousal benefit is reduced up to 35% if claimed prior to your FRA. The sooner you claim, the more your reduction.

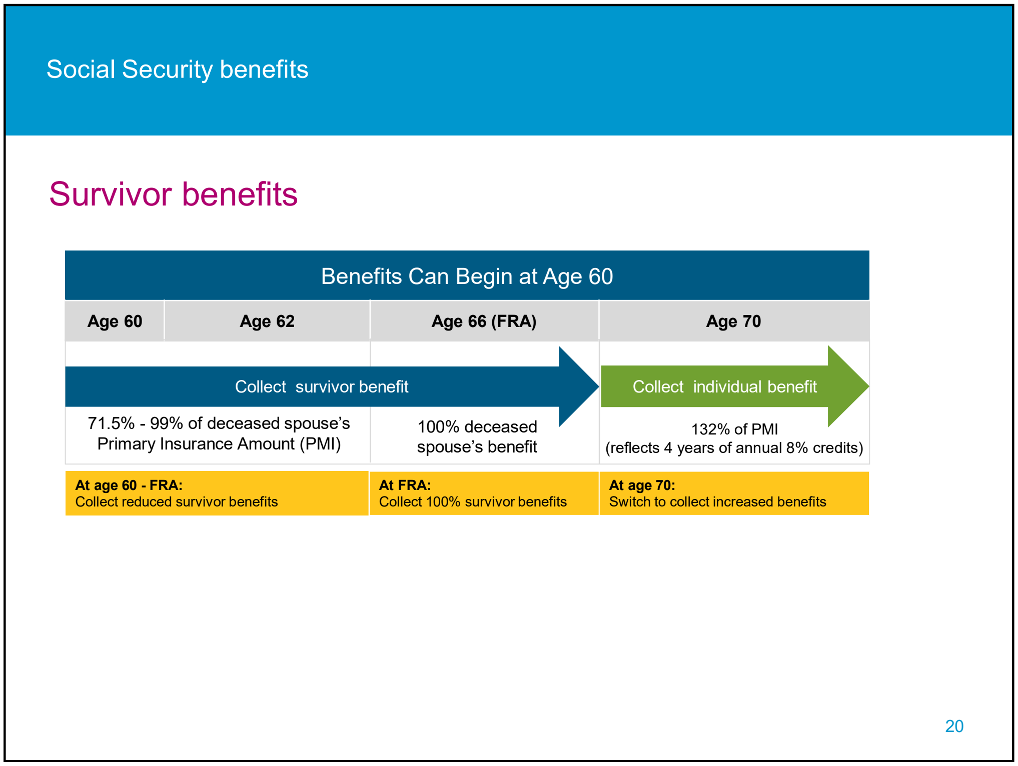
If you are 62 or older and divorced, you may qualify to receive benefits according to an ex-spouse's Social Security record. You do not need to wait for your former spouse to claim benefits; however, your former spouse must be eligible for benefits even if he or she has not claimed yet.

To qualify on an ex-spouse's record, the potential recipient must ***[read requirements.]***

Keep in mind that you can claim benefits on your ex-spouse's record, even if he or she has remarried. However, you must be unmarried to claim on their record.

If your former spouse continues to work while receiving benefits on your record, the same earnings limits apply to him or her as apply to you.

If you have an ex-spouse who meets the above requirements, he or she may receive benefits according to your record, but that does not impact the amount of benefits you receive.



The easiest way to describe survivor spouse benefits is to say that when a spouse passes away, the surviving spouse will receive the highest household benefit amount, regardless of whose benefit it was. The surviving spouse can begin collecting survivor benefits as early as age 60, at a reduced rate.

Here's how this benefit works:

- If you are age 60 to full retirement age, you would receive a percentage (ranging from 71½ to 99 percent) of your deceased spouse's benefit amount.
- If you are at full retirement age or older, you would receive 100 percent of your deceased spouse's benefit amount. If your spouse was receiving reduced benefits, your survivor's benefit will be based on the reduced benefit amount.
- At age 70, you can switch to your increased individual benefit.

If you remarry after you reach age 60, your remarriage will not affect your eligibility for survivors benefits. However, if your current spouse is receiving Social Security benefits, you can apply for the spousal benefit based on his or her record if it is higher than your survivor's benefit.

For retirees who anticipate a shorter retirement due to health or other reasons, survivor benefits should be considered during the retirement income planning process, in order to help ensure that the surviving spouse will have optimal benefits for life.

The Full Retirement Age used to calculate survivors benefits may differ from the Full Retirement Age used to calculate retirement benefits. Access the Social Security's online Retirement Estimator tool for estimates on your survivor benefits.

Social Security benefits

Taxation of Social Security benefits

Status	Not taxable	Up to 50% of benefits taxable (at marginal tax rate)	Up to 85% of benefits taxable (at marginal tax rate)
Filing as individual; Combined income of	$25,000 or less	Over $25,000 to $34,000	More than $34,000
Filing joint return; Combined income of	$32,000 or less	Over $32,000 to $44,000	More than $44,000

Adjusted Gross Income
+ Nontaxable Interest
+ ½ Social Security Benefits
Combined Income

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

Source: Benefits Planner: Income Taxes and Your Social Security Benefit. ssa.gov. Retrieved October 26, 2018.
Individuals should seek independent tax advice regarding their circumstances.

21

[OPTIONAL SLIDE]

Will your Social Security income during retirement be subject to income tax? As you can see on this chart, the amount of your benefits that are taxable depends on your combined income and filing status.

- **File a federal tax return as an "individual"** and your *combined income** is between $25,000 and $34,000, you may have to pay income tax on up to 50 percent of your benefits. More than $34,000, up to 85 percent of your benefits may be taxable.
- **File a joint return**, and you and your spouse have a *combined income** that is between $32,000 and $44,000, you may have to pay income tax on up to 50 percent of your benefits. More than $44,000, up to 85 percent of your benefits may be taxable.

If you are married and file a separate tax return, you probably will pay taxes on your benefits.

*Your combined income includes your adjusted gross income, plus your nontaxable interest income, plus one-half of your Social Security benefits.

One income source that does not affect the taxable status of Social Security benefits, under current law, is qualified distributions from a Roth IRA or Roth retirement savings plan.

Social Security benefits

Medicare

Your Social Security healthcare benefit	
Eligibility requirements	> Age 65 and over > Ten years of covered employment > Disabled
Covered services	> Basic healthcare services (e.g., doctor visits, lab tests, surgeries) > Supplies (e.g., wheelchairs, walkers)
Excluded services	> Skilled and private nursing > Custodial and routine care > In-home services > Plastic surgery > Most vision and dental care
Plans	> Part A, B, C & D

22

[OPTIONAL SLIDE]

When it comes to planning for retirement, healthcare costs cannot be ignored. Careful planning is key—you don't want to be stuck working to maintain healthcare benefits long after you've planned on retiring or spending your diminished retirement income on rising healthcare expenses. One option for covering healthcare costs during retirement is **Medicare**, which is a federal health insurance program for people who are age 65 and older with ten years of covered employment, and for disabled persons of any age. Medicare becomes the "secondary payor" after the qualifying employee's health insurance provider. There is no early retirement date with Medicare and you can also qualify based on spousal benefits. Medicare was designed to cover some of the costs of certain basic healthcare services, not including Long-Term Care. Some services include lab tests, surgeries, doctor visits and supplies such as wheelchairs and walkers. In most cases, the deductibles, co-payments, and excluded services under Medicare leave gaps in your retirement healthcare plan. An answer to this problem is Medicare supplemental insurance, or Medigap, which picks up where Medicare leaves off.

Medicare is currently comprised of four parts:

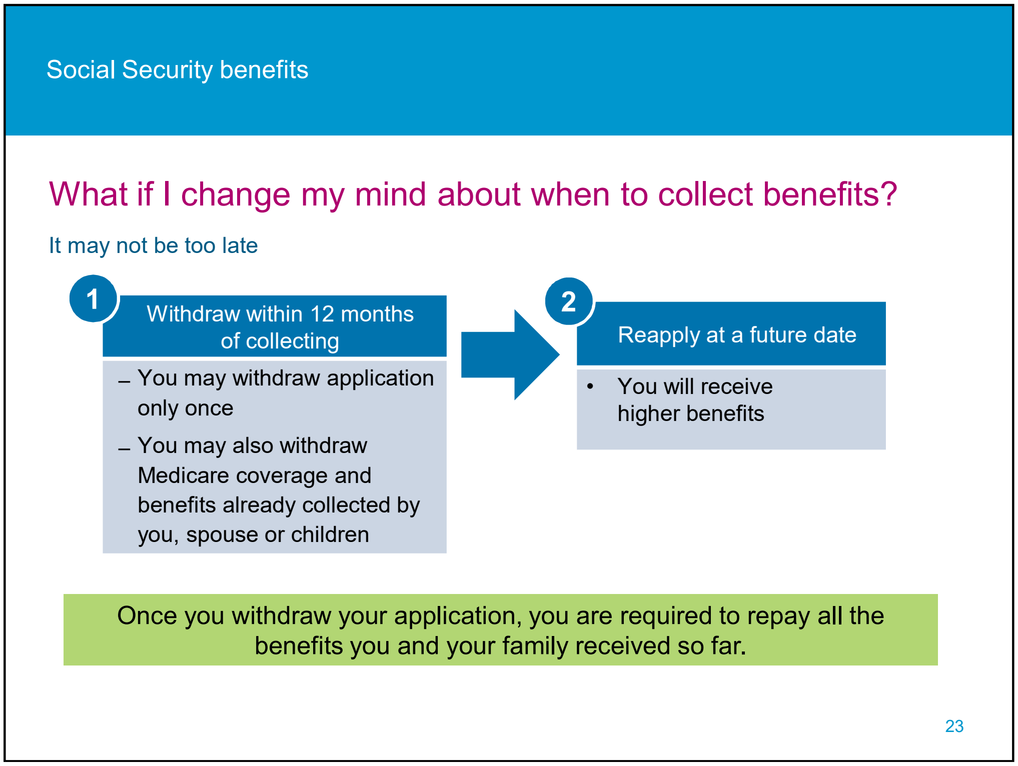
Medicare Part A Plan, often referred to as hospital insurance, which covers skilled nursing care, inpatient rehabilitation and hospice care. If you're 65 and have started to receive Social Security pay, coverage under Part A is automatic.

Medicare Part B Plan is medical insurance for issues that don't require hospitalization, including preventive care. Like Part A, beneficiaries that turn age 65 and begin to receive Social Security pay will automatically be covered under Plan B.

Medicare Part C Plan, also known as Medicare Advantage, is private health insurance that provides Medicare coverage. It also includes Medigap plans that cover many of the out-of-pocket expenses (copayments, coinsurance, deductibles, etc.) that original Medicare does not. You must have both Parts A and B to enroll in Part C.

Medicare Part D Plan is the prescription drug plan and you will be offered enrollment options around age 65. Enrolling is up to you and may depend mostly on enrollment in Parts A and B.

You should consider consulting with your health insurance representative to ensure you are maximizing your Medicare and health insurance coverage.



[This slide has animations. Click for step 2 to appear.]

What if after you begin collecting your Social Security benefits, you realize that you want or need more time to fund your retirement? If you have changed your mind about receiving your Social Security benefits now, you may be able to withdraw your Social Security claim within the first 12 months you became entitled to retirement benefits. If you are already entitled to Medicare, you may also choose to withdraw your Medicare coverage, but it is not required. Keep in mind that you are allowed to withdraw your application only once, at which point you will be required to repay all the benefits you and your family received so far, including garnishments such as child support or unpaid federal taxes, voluntary tax withholdings and Medicare Part B, C and D premiums if you had also withdrawn that coverage. The Social Security Administration will advise you of the amount of benefits you must repay.

You can then re-apply at a future date, at which point your benefits will restart at a higher level based on your current age.

Bridging the income gap

Work and still receive Social Security benefits

2019

Age	Earn up to	After which some portion of your benefits will be deferred by
In years before Full Retirement Age (FRA)	$17,640	$1 for every $2 you earn over limit
Up to the month within the year you reach FRA	$46,920	$1 for every $3 you earn over limit

In the month you reach FRA and anytime thereafter, there's no earnings limit or penalty.

Will your Social Security benefits be enough if you live to be 100…or older?

Source: Social Security Administration; ssa.gov.

24

Another option for income in retirement is to continue working. Whatever your reason for doing so—whether because you enjoy working or your savings or investments aren't sufficient— you can work part time and collect Social Security benefits too.

However, if you work and take benefits prior to your full retirement age, some of your benefits may be withheld. However, any amounts withheld as a result of wages are added back to your benefit after you reach full retirement age, so there's no penalty for working longer ***[review the chart]***. Benefits aren't lost; they're simply deferred. Higher benefits can be important to you later in life and increase the future benefit amounts your family and your survivors could receive.

Here's how your benefits are calculated if you work in retirement:

- Benefits are reduced $1 for every $2 earned over the limit in calendar years before FRA is reached.
- In the year in which FRA is reached, benefits are reduced $1 for each $3 earned over the limit until the month FRA is reached.
- Benefits are not reduced once you attain FRA.

Social Security benefits

Alternate Social Security scenarios

Windfall elimination provision	Government pension offset
The windfall elimination provision may affect anyone who has earned a pension (or lump sum in place of a pension) from working in a job where Social Security taxes were now withheld (such as a state or local government agency).	If you receive a pension from a government job in which you did not pay Social Security taxes, some or all of your Social Security spouse's, widow's, or widower's benefit may be offset due to receipt of that pension.

Contact the Social Security Administration:
www.socialsecurity.gov or 1-800-772-1213

25

[OPTIONAL SLIDE]

What if you receive a pension from a government job where you did not pay Social Security taxes? If so, your Social Security benefits could be affected by two rules: the Government Pension Offset and the Windfall Elimination Provision. Congress adopted these rules to ensure that benefits of government employees who don’t pay Social Security taxes are calculated the same as workers in the private sector who pay Social Security taxes, eliminating a seemingly unfair "windfall" due to technicalities in calculations.

- The **Windfall Elimination Provision**[1] reduces the Social Security benefit you receive based on your own work record from jobs where you paid taxes while also being eligible for a federal, state or local pension from employment where Social Security taxes were not withheld.

- The **Government Pension Offset**[2] provision affects the Social Security benefit you receive as a spouse or a widow if:
  - You receive a pension from a job where you did not pay Social Security taxes, based on employment for a federal, state or local government agency, and
  - You apply for Social Security benefits based on your spouse’s work record.

The Social Security Administration uses a modified formula to compute your Social Security benefits, resulting in a lower benefit. The structure of the modified formula can be especially harsh for low-paid workers. You should contact the Social Security Administration to calculate your benefits.

Windfall Elimination does not affect a Social Security survivor’s benefit unless the survivor (often the widow) is also a retired government employee.

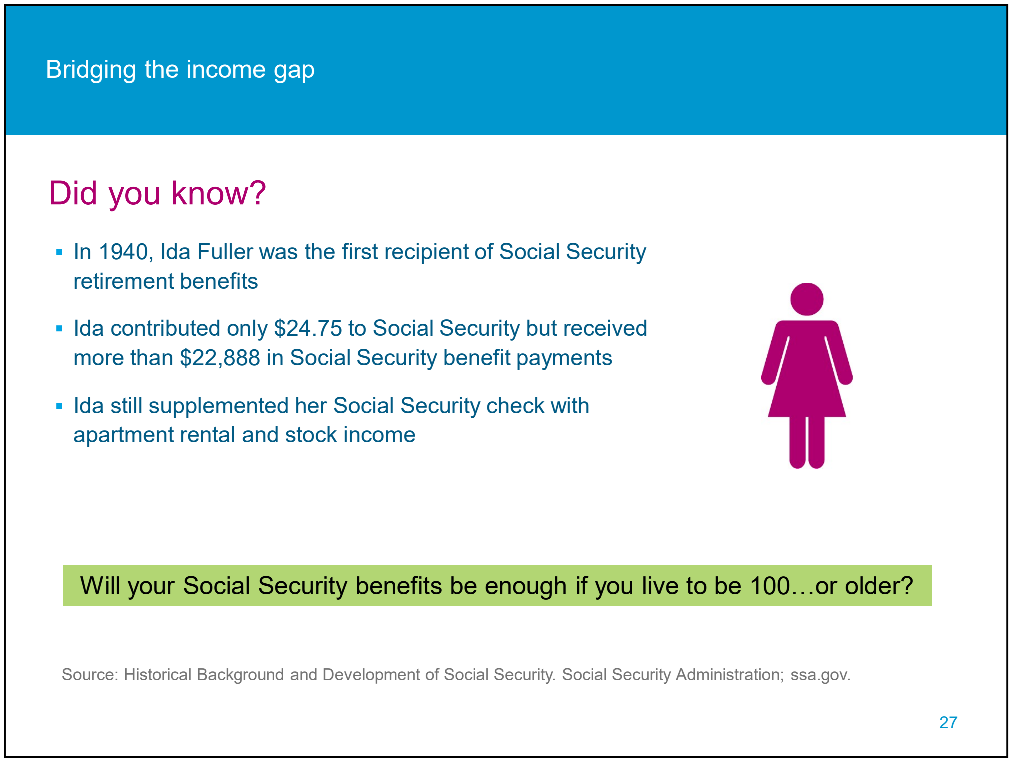
Sources: [1]Windfall Elimination Provision. Social Security Administration, SSA Publication No. 05-10045, January 2018.

[2]Government Pension Offset. Social Security Administration, SSA Publication No. 05-10007, February 2017.

Bridging the income gap

Because Social Security benefits are intended to merely supplement your retirement income, you should also consider your other sources of income, especially if you decide to delay filing for Social Security in an attempt to maximize your benefits.

Let's review other sources of income that can assist in building a bridge to help offset the potential gap left by Social Security.

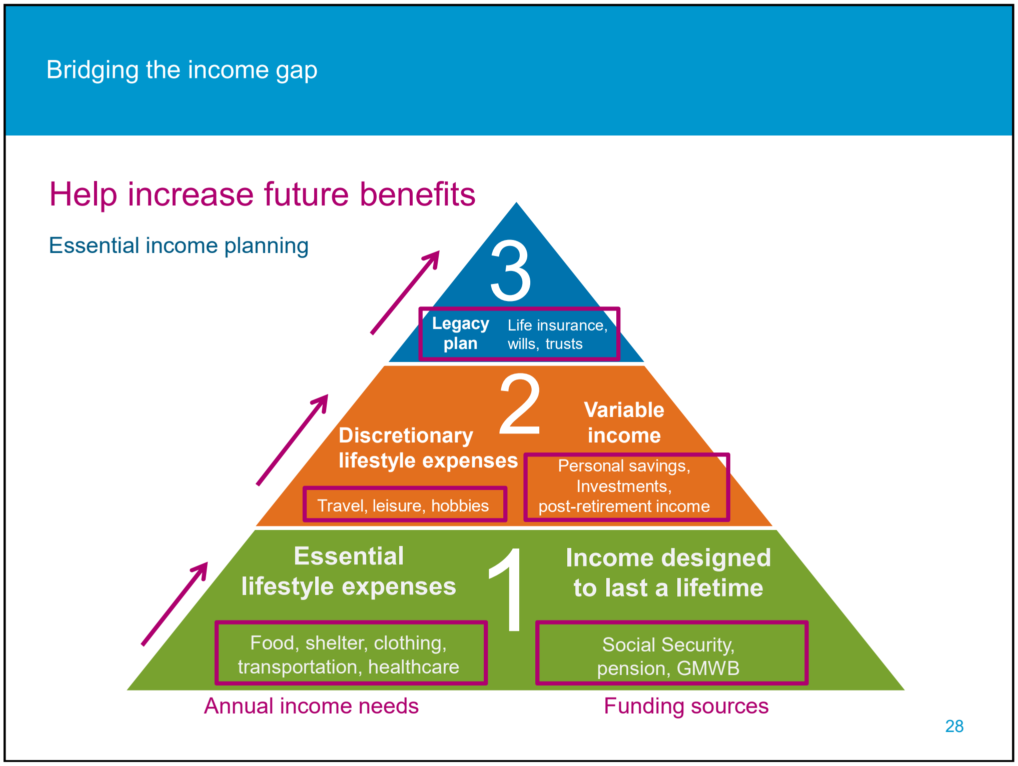


[OPTIONAL SLIDE]

The first Social Security retirement benefits were paid out in 1940 to Ms. Ida Fuller. Unmarried, Ida worked as a legal secretary in Ruthland, Vermont. Over the 3 years Ida had wages withheld, she contributed a total of $24.75. Ida retired at the age of 65 and, because she lived to be 100 (dying on the 35th anniversary of receiving her first check), she collected payments totaling over $22,888. Not a bad return on her investment! Although her Social Security income could have been considered sufficient by 1940's standards, Ida still supplemented her check with an apartment rental and stock income.

What if you live to be 100 years old, or older? Did you know that in the U.S. alone it is estimated that there are over 72,000 Centenarians[1], people over the age of 100? Will your Social Security benefits be enough to sustain your financial needs in retirement? If not, how will you supplement that income?

[1]How Many People live to 100 Across the Globe? Updated September 1, 2018. The Centenarian.



[This slide has animations.]

If you don't know what other sources of income you will have in retirement, how do you know if you will be able to afford to pay your expenses or fulfill your retirement dreams?

Earlier, I discussed the sources of retirement income. Now, let's discuss how to supplement income from the gap left by Social Security. Whether you are retiring early or delaying the initial claiming of Social Security benefits, you don't have to delay receiving retirement income. You can tap into your IRAs, 401(k)s or other investments to provide bridge income.

You might consider working with a financial advisor to implement an essential income strategy. It's a simple three-step process. ***[Click for each topic to appear as you speak.]***

The first step is to pay for essential expenses with guaranteed sources of income. Essential (basic) expenses include food, shelter, clothing, transportation and healthcare needs that can be funded with income sources designed to last a lifetime such as pensions, Social Security, and guaranteed lifetime income annuities. Guarantees are backed by the claims-paying ability of the insurance company issuing the contract.

The second step is to pay for non-essential expenses with income from financial assets. Non-essential income needs are things you want like hobbies, travel, and entertainment. Income from financial assets includes IRAs, CDs, personal savings, investments, and tax-deferred annuities.

And finally, the last step is to plan a legacy for your beneficiaries. Planning can help ensure your legacy will be distributed as you intend.

The main focus of the Essential Income Planning process is to ensure that essential expenses are taken care of first. And, that will be our focus in the following case study.

Bridging the income gap

Case study

Dave and Julia: Seeking income for life

Dave
64 years old

Income and expenses	
Monthly combined income (pensions and Social Security)	$ 4,000
Monthly essential expenses	$ 5,000
Monthly income gap	**$ 1,000**
Savings and investments	
Dave’s 401(k)	$250,000
Julia’s 403(b)	$150,000
IRAs	$ 75,000
CDs	$ 25,000
Retirement nest egg	**$500,000**

Julia
62 years old

29

[OPTIONAL SLIDE]

Here’s an example of how the Essential Income Planning process works.

Case study – Filling the income gap solution:

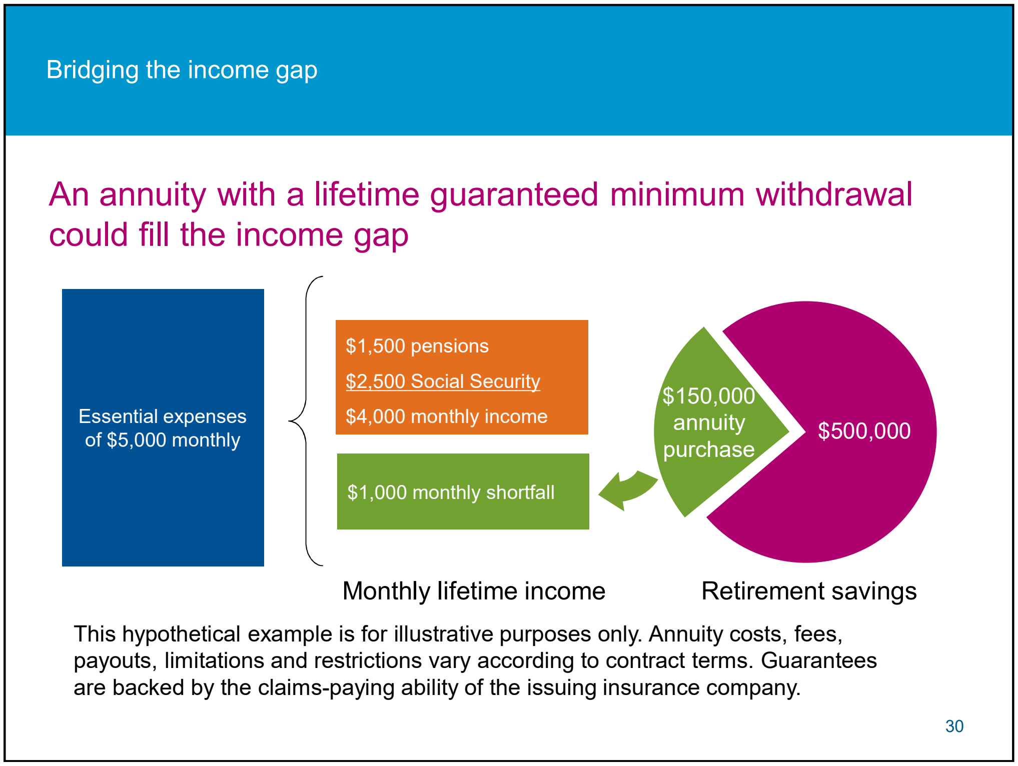
Meet Julia and Dave. He is 64, and she is 62. They have three grown children whom they have put through college and helped financially to get on their feet and start lives of their own. Now, it’s just the two of them. And, they are ready to start enjoying their retirement. Their main objective is to achieve sufficient income for life.

Their monthly income from combined pension is $1,500. Assuming they file for Social Security benefits at FRA, they will collect a combined benefit of $2,500. And, their essential (basic) monthly expenses total $5,000.

They’ve done their best throughout the years to save and have accumulated quite a nest egg worth $500,000. The breakdown of their investments is as follows:

- $250,000 Dave’s 401(k)
- $150,000 Julia’s 403(b)
- $ 75,000 IRAs

- $ 25,000   CDs



[OPTIONAL SLIDE]

Julia and Dave have essential expenses totaling $5,000 each month, but they only receive $4,000 in income each month from their combined pensions, plus Social Security benefits ***[click for total income to appear as you speak]***. That leaves them short by $1,000 each month. What should they do to fill the income gap? They can't cut expenses, because these are essential needs, like food and healthcare. Julia and Dave want to ensure that they can always cover these essential expenses, so they are looking for a guaranteed income source to fill the gap – one that they will never outlive.

One solution would be for Julia and Dave to use a portion of their retirement savings to purchase a guaranteed lifetime income annuity ***[click for pie chart to appear as you speak]***. In our hypothetical example, they use $150,000 to purchase an annuity with a guaranteed lifetime withdrawal benefit that will generate $9,000 each year, which is approximately $750 of monthly income for life. After purchasing the annuity, they still have $350,000 in their retirement savings which can be used to fund non-essential items such as travel and hobbies.

With the essential income planning process, Julia and Dave can have confidence in knowing their essential living expenses will be covered.

Wouldn’t we all like to have that same confidence?

Where to go from here?

Now that we have reviewed how Social Security benefits impact your overall retirement planning, let’s take a look at some action steps you can take to start planning.

Where to go from here?

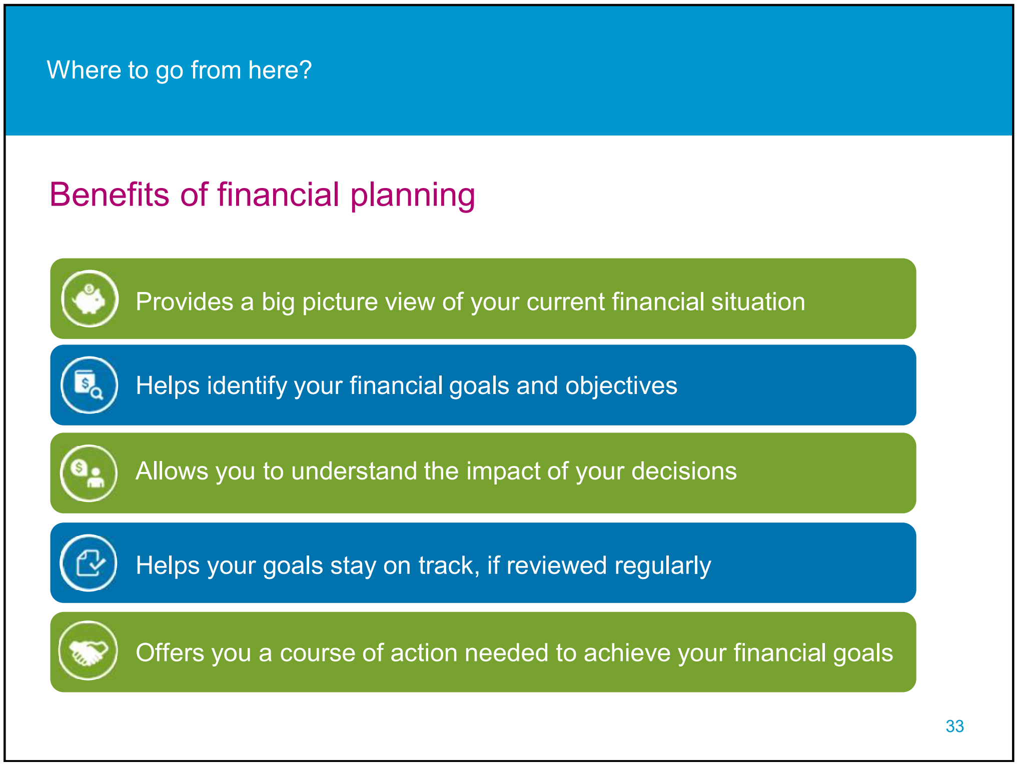
Consider your expectations for retirement

- 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?
- Do you have a plan that guarantees your essential income needs will be met?

32

What are your expectations for retirement? ***[Read slide.]***

Do you want to do it on your own or do you need help? If you are not certain how to get started, let us help you plan.



So, what are some of the benefits of financial planning?

A financial plan:

- Provides a big picture view of your current financial situation.
- Helps identify what's important to you (your goals and objectives).
- Allows you to understand how the financial decisions you make could impact other areas of your finances, short and long term.
- Helps your goals stay on track, if reviewed regularly, and finally
- Offers a course of action to help you achieve your goals.

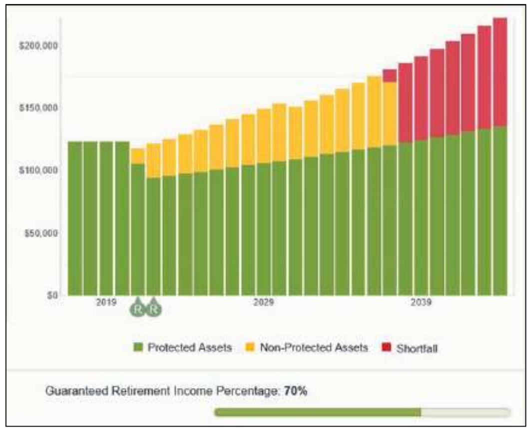
With a financial plan in place, you're more likely to adapt easily to life's changes and feel more secure about your finances.

Where to go from here?

Retirement Pathfinder®

Get real-time answers to your questions:

- Can I retire when I planned?
- How much monthly income will I need?
- Am I currently saving enough?
- Is it possible to guarantee my retirement income?
- Will I outlive my retirement savings?
- What happens if I die prematurely?



34

[OPTIONAL SLIDE]

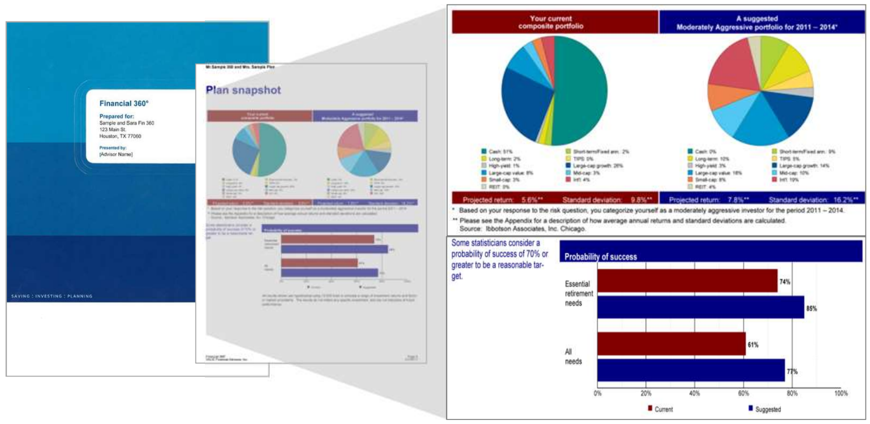
Retirement Pathfinder from VALIC is an interactive retirement income planning tool that can help you see your retirement plan like you've never seen it before. It is designed to dynamically build your retirement plan while sitting shoulder-to-shoulder with your financial advisor. Retirement Pathfinder can illustrate numerous retirement scenarios and can identify potential retirement pitfalls.

In just minutes I can start generating the answers you need to determine where you stand and where you might need to make changes. This can provide clarity about your progress, choices for creating adequate retirement income and confidence in your plan. Please check "yes" on your Evaluation Form if you would like to learn more.

Where to go from here?

Financial 360 Plan

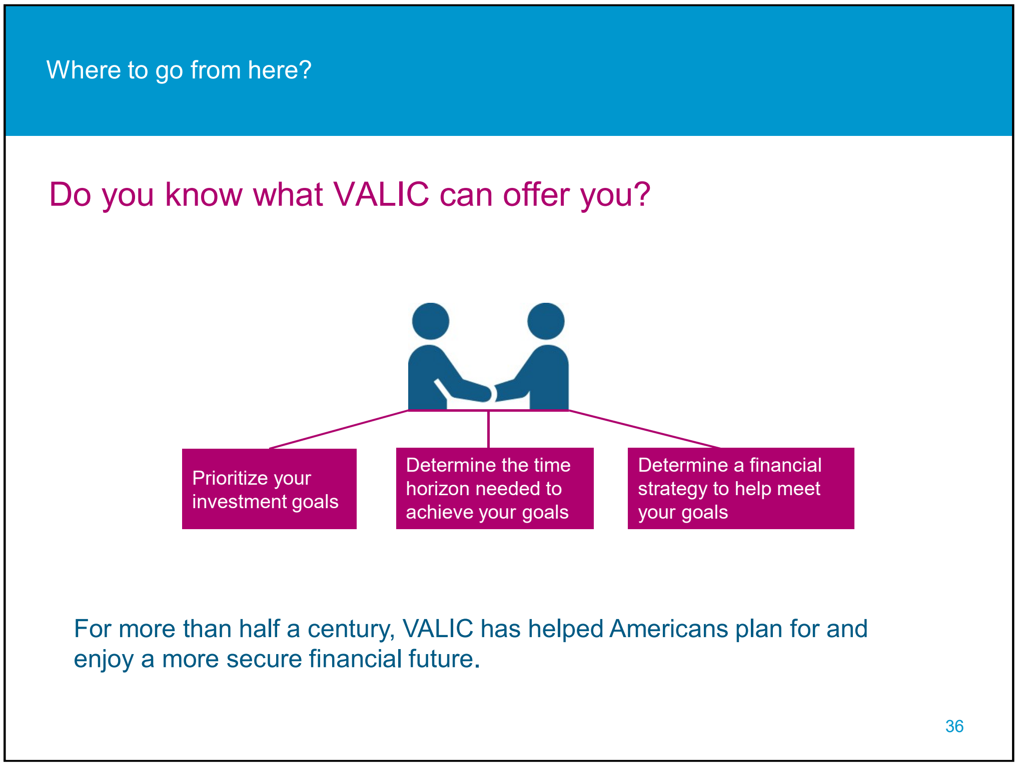
Provides a customized analysis of your financial situation



35

[OPTIONAL SLIDE]

Once you've consulted with a financial advisor, he/she can create a customized plan for you. The Financial 360 Plan provides a side-by-side comparison of your current asset allocation and a suggested, diversified investment program based on information you provide. It is also designed to recommend how to overcome the five major risks in retirement, which are inflation risk, longevity risk, investment risk, healthcare costs and withdrawal risks. Investment efficiency and its impact on retirement are also addressed.



Now that you know how beneficial financial planning can be, isn’t it time you get started? One step you can take right now is to work with a VALIC financial advisor.

A financial advisor can help you:

- Prioritize your investment goals
- Determine the time horizon needed to achieve your goals and
- Determine a financial strategy to help you meet your goals

VALIC is a leading provider of retirement plans and investment services.* Our longevity and wide range of investment options means that we’ve helped hundreds of thousands of people, just like you, plan for and enjoy retirement. Most importantly, through our experience, our goal is to help you live retirement on your terms.

*Source: LIMRA, SRI Not-for-Profit Retirement Market Survey, 9/30/2017. Based on total assets in a survey of 25 major companies.

This information is general in nature, may be subject to change, and does not constitute legal, tax or accounting advice from any company, its employees, financial professionals or other representatives. Applicable laws and regulations are complex and subject to change. Any tax statements in this material are not intended to suggest the avoidance of U.S. federal, state or local tax penalties. For advice concerning your individual circumstances, consult a professional attorney, tax advisor or accountant.

Securities and investment advisory services offered through VALIC Financial Advisors, Inc. ("VFA"), member FINRA, SIPC and an SEC-registered investment advisor. VFA registered representatives offer securities and other products under retirement plans and IRAs, and to clients outside of such arrangements.

Annuities issued by The Variable Annuity Life Insurance Company ("VALIC"), Houston, TX. Variable annuities distributed by its affiliate, AIG Capital Services, Inc. ("ACS"), member FINRA. Guarantees are backed by the claims-paying ability of VALIC and are not the responsibility of AIG. VALIC, VFA and ACS are members of American International Group, Inc. ("AIG").

VALIC.com

VC 25763 (01/2019) J209002 EE

VALIC
An AIG company

Thanks for taking part in the educational presentation.