

Social Security



Know your options to help maximize your benefits

FOR INVESTORS

Not FDIC Insured • May Lose Value • No Bank Guarantee



What you need to know before you collect

Today's agenda:

- **Social Security essentials**
- **Benefits and options**
- **Strategies to consider**
- **Next steps**

96%
of U.S. workers
are covered by
Social Security¹



1. Retirement Benefits, www.socialsecurity.gov.

Social Security eligibility

- ✓ 40 quarters of wages that were subject to Social Security payroll taxes
- ✓ Quarters do not need to be consecutive

- ✓ Benefits calculated based on the average of the 35 highest years of earnings



Social Security terms

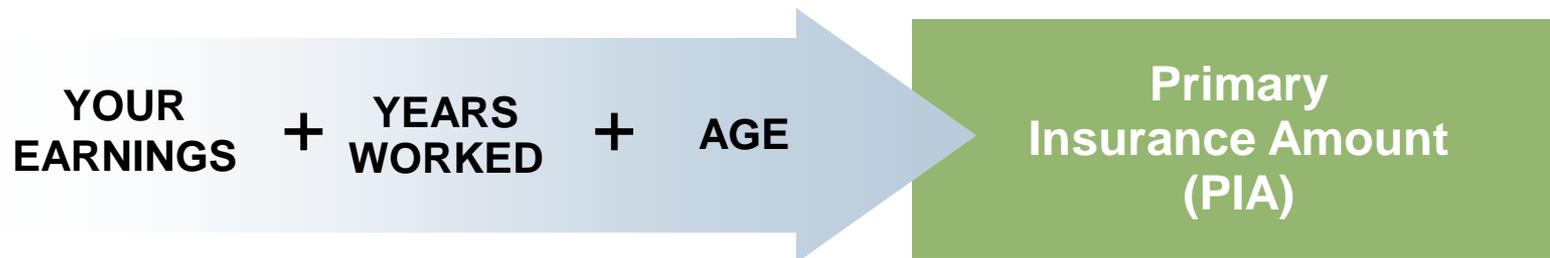
Full Retirement Age (FRA)

Age to receive full Social Security benefits

IF YOU WERE BORN IN	1943–1954	1955	1956	1957	1958	1959	1960 OR LATER
FULL RETIREMENT AGE	66	66 + 2 MONTHS	66 + 4 MONTHS	66 + 6 MONTHS	66 + 8 MONTHS	66 + 10 MONTHS	67

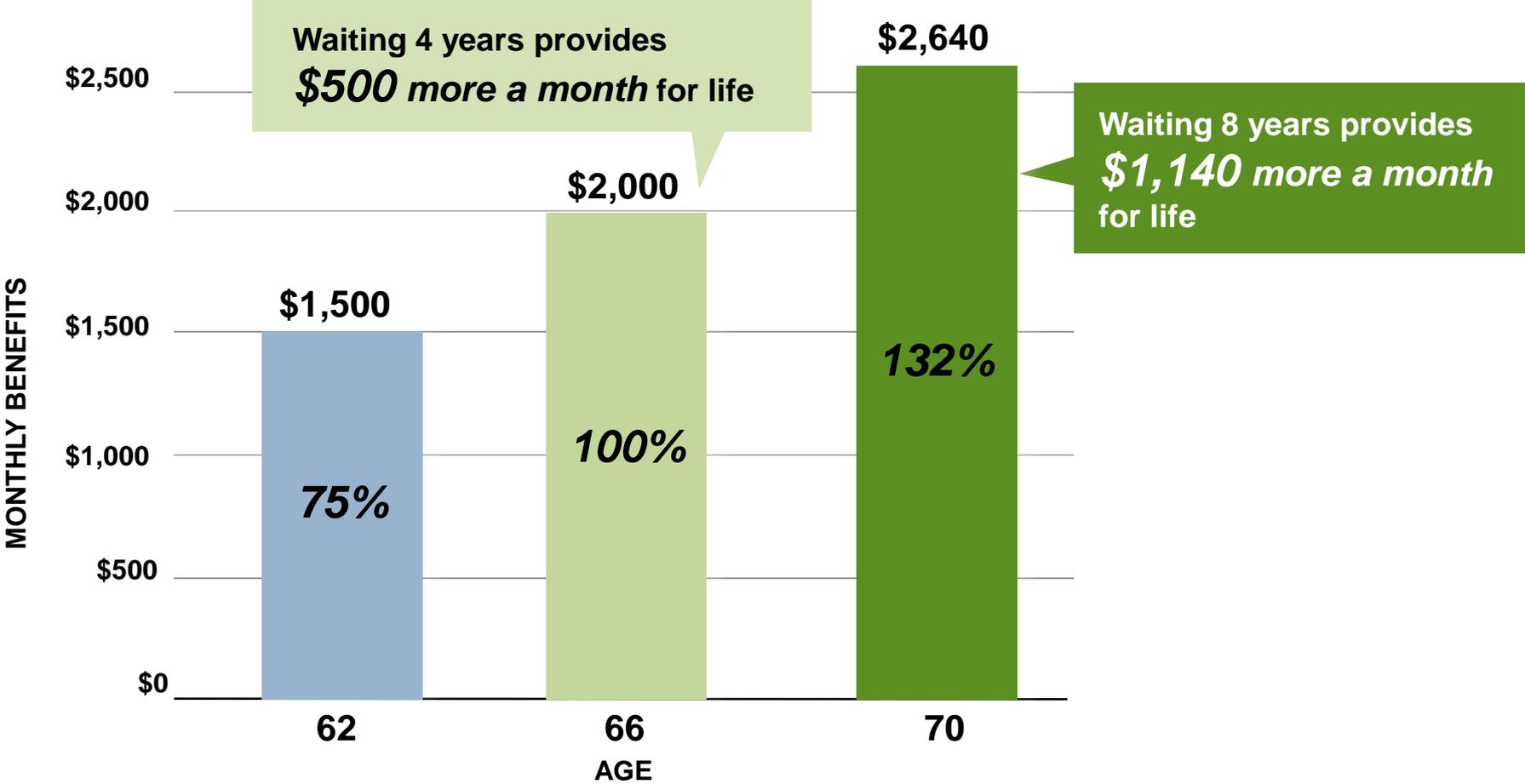
Primary Insurance Amount (PIA)

How your benefits are calculated at Full Retirement Age



The value of waiting: Up to 8% per year

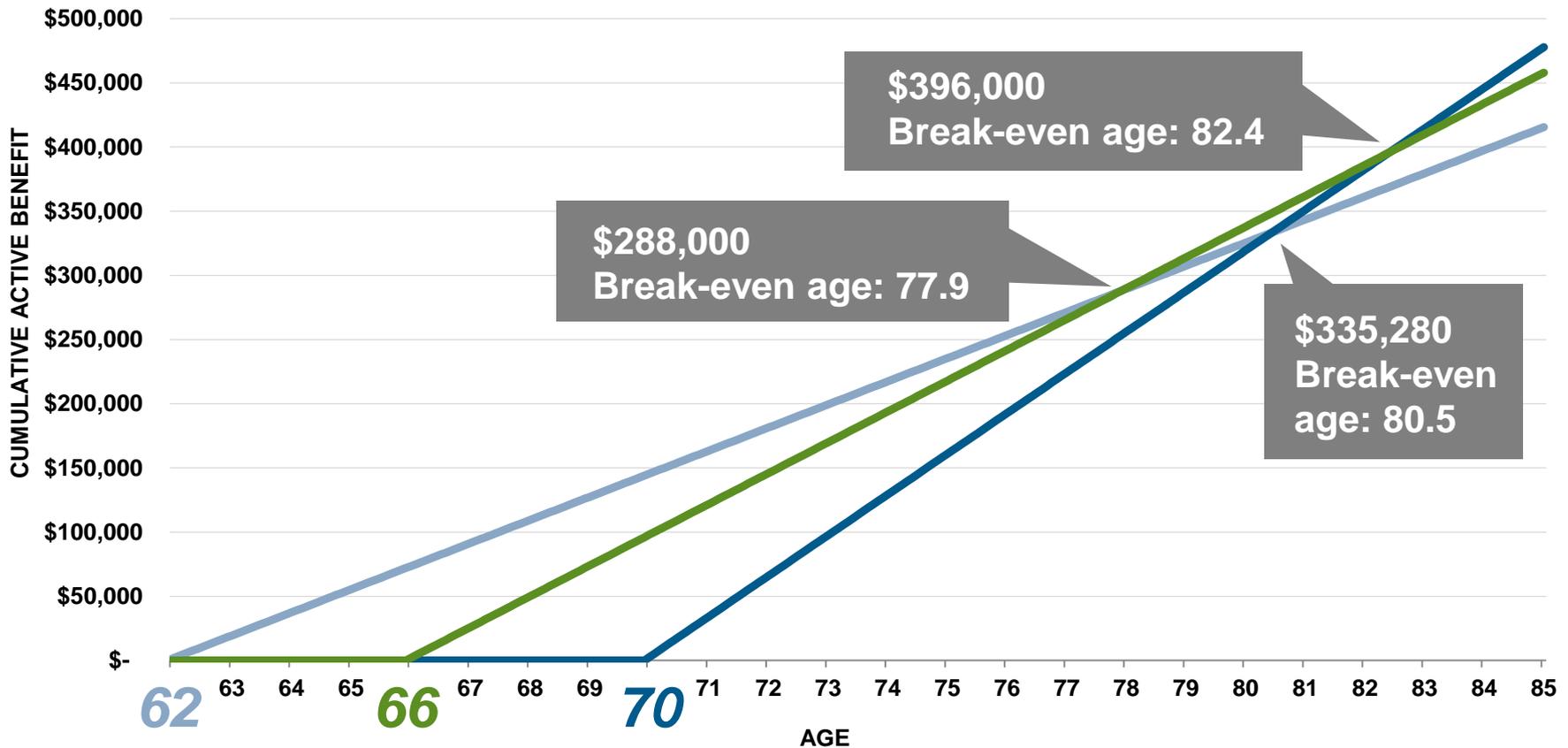
Can you wait?



This hypothetical example assumes that the person is not working in retirement. Sample benefit amounts are not exact due to rounding. They do not reflect annual cost-of-living adjustments or taxes. Had taxes been taken into account, the amounts would be lower. Benefit at full retirement age is assumed to be \$2,000 per month.

Social Security “break-even” age

The age at which you break even and begin to come out ahead versus taking Social Security before full retirement age

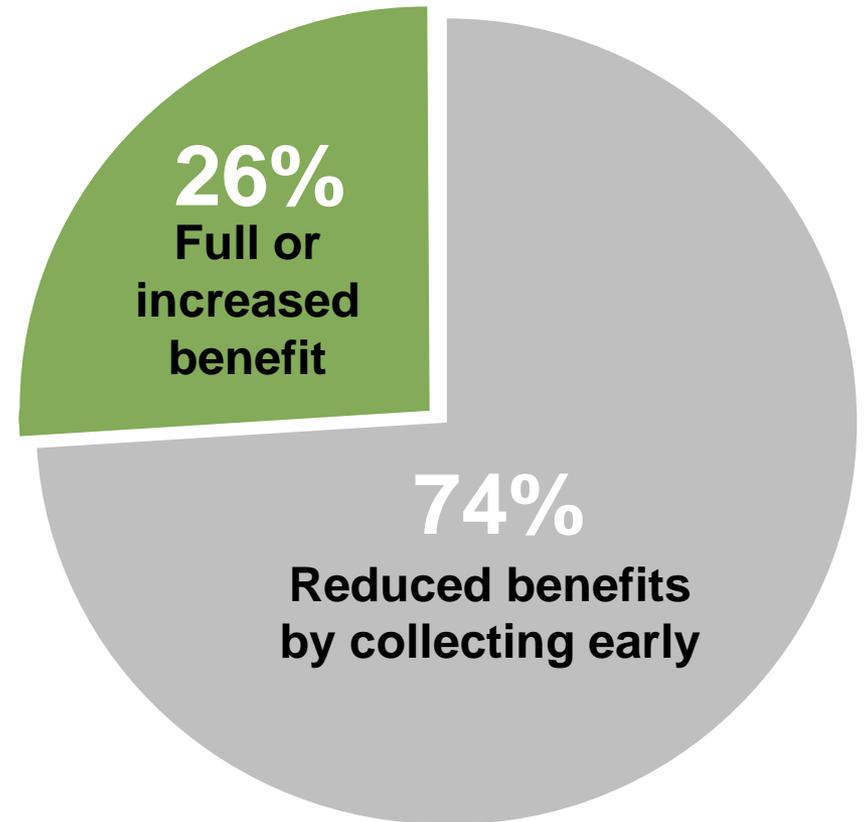


This hypothetical example is for illustrative purposes only and assumes the FRA is age 66 with an annual PIA of \$24,000. At age 62, the reduced benefit would be \$18,000, and at age 70 the benefit would be \$31,680. The ending values do not reflect any taxes or COLA adjustments.

Many start taking Social Security benefits early

Taking benefits simply because they can

In a Fidelity study, *only 12%* of respondents said a primary reason they collected early was because they needed to¹



Source: Social Security Administration.

1. Fidelity Advisor 2013 Survey of Investors at Retirement, July 2013. Conducted by Research Now on behalf of Fidelity Investments, this survey included 1,886 investors between the ages of 50 and 75 with investable assets of \$100,000 or more.

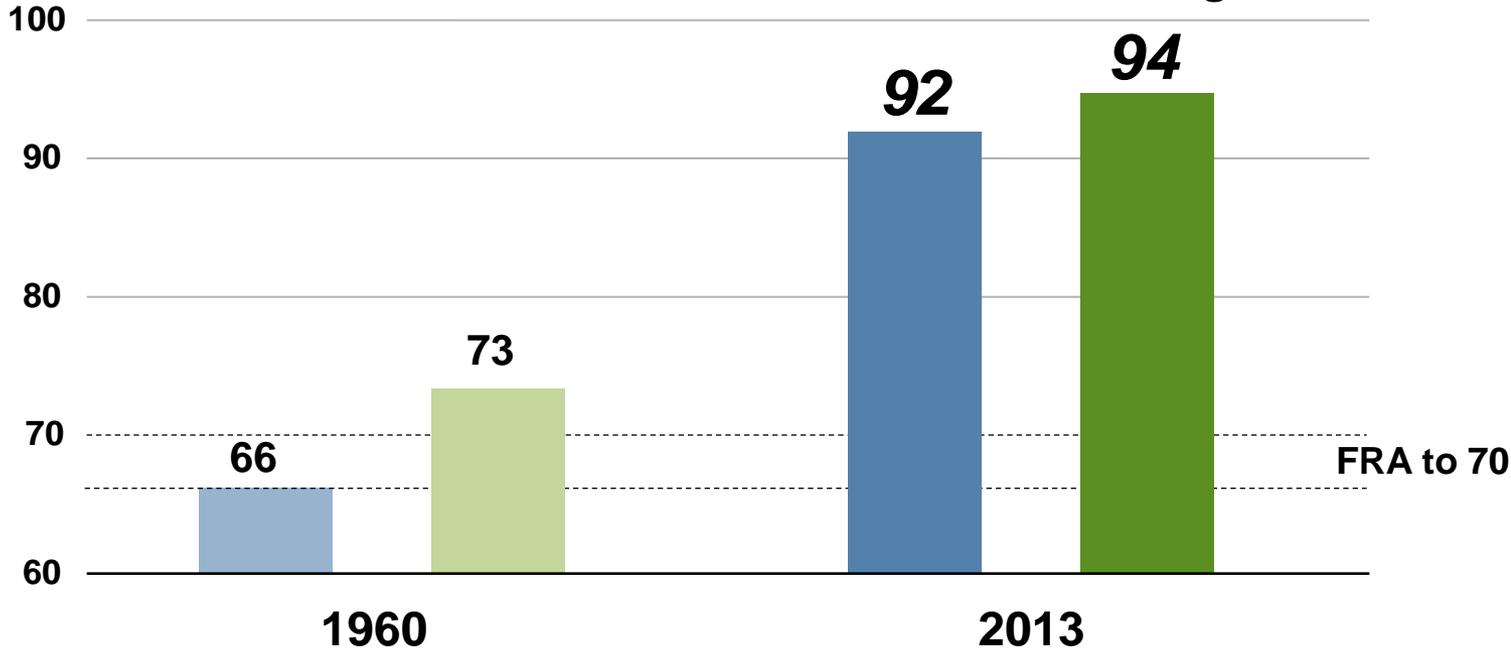
Longevity: We are living longer in retirement

Retirement years could exceed working years

AVERAGE LIFE EXPECTANCY AT 65

Male Female

25% chance of living to:



Source: Annuity 2000 Mortality Table; Society of Actuaries. Figure assumes a person is in good health.

Working could impact benefits

Working while taking Social Security has its drawbacks

AGE	2014 LIMIT	WHAT HAPPENS ABOVE THE LIMIT
Under FRA	\$15,480 per year	For every \$2 over the limit, \$1 is withheld
In the year you reach FRA	\$41,400 per year	For every \$3 over the limit, \$1 is withheld from benefits until the month they reach FRA
At FRA or older	None	No limit on earnings

Source: Social Security Administration.

Provisional income and taxation

Federal income taxes on benefits

PERCENTAGE OF BENEFITS TAXABLE	SINGLE FILERS	MARRIED FILERS
0%	\$25,000	\$32,000
Up to 50%	\$25,000–\$34,000	\$32,000–44,000
Up to 85%	Above \$34,000	Above \$44,000



What provisional income may or may not include

Includes:

- ✓ 50% of Social Security benefits
- ✓ Income from municipal bonds
- ✓ Wages
- ✓ Business income
- ✓ Interest
- ✓ Capital gains
- ✓ Dividends
- ✓ Traditional IRA distributions
- ✓ Rental income
- ✓ And more...

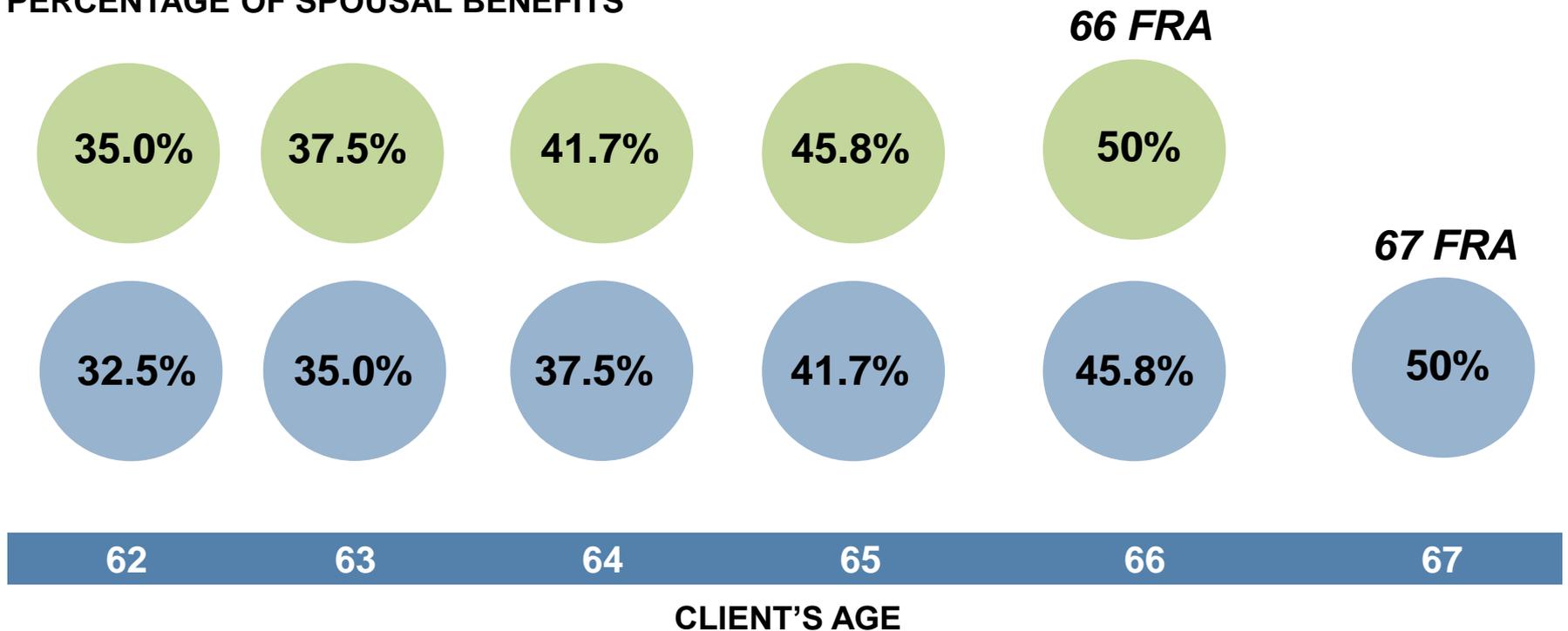
Does *not* include:

- Tax-deferred build-up inside IRAs, 401(k)s, and annuities
- Income from Roth IRAs
- Non-taxable income from life insurance

Spousal benefits

If you are married and collect early, your spousal benefits are reduced

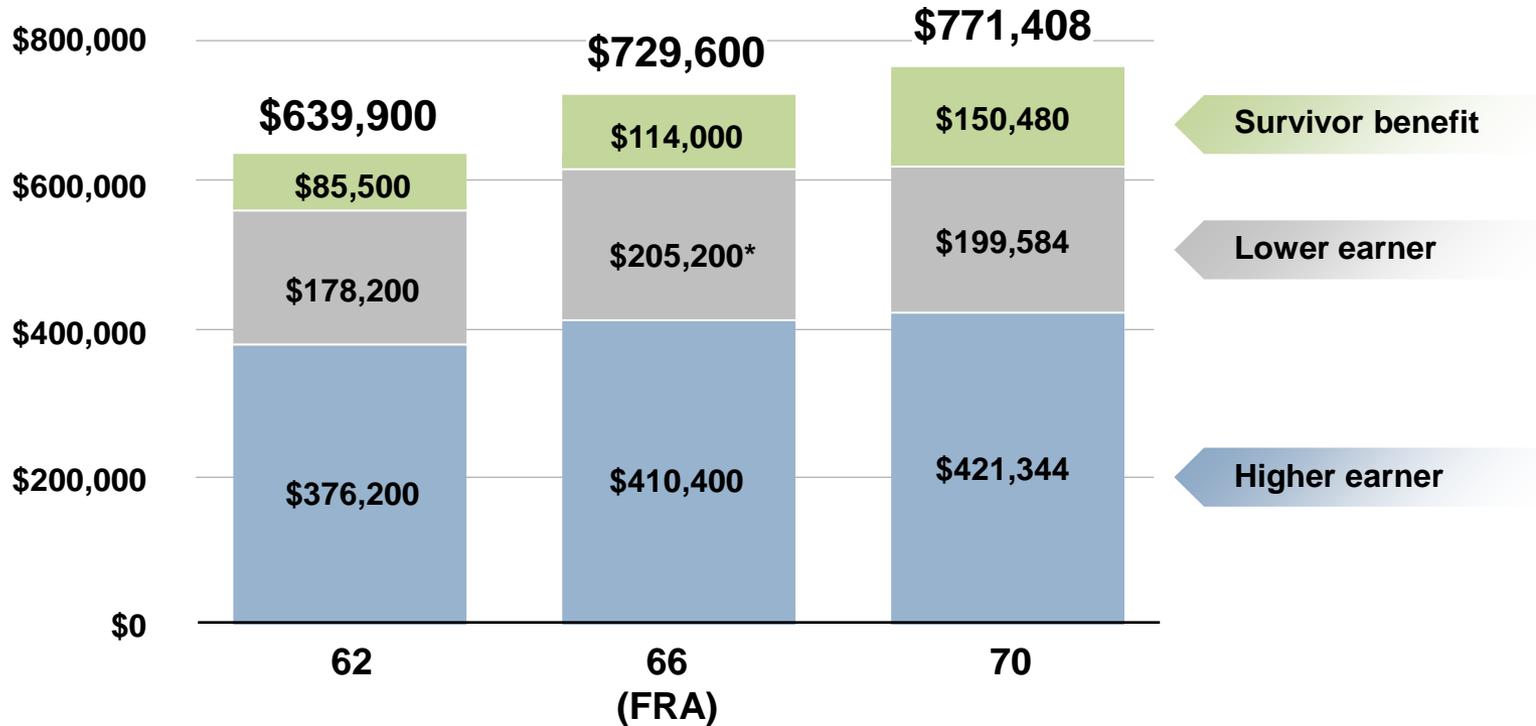
PERCENTAGE OF SPOUSAL BENEFITS



Your spouse can collect up to **15–17% more** by waiting until FRA.

Maximizing couples' benefits strategy

Spousal and survivor benefits can rise significantly



* Total includes spousal benefit of \$10,800.

This hypothetical scenario depicts the differences in amounts that a retiring couple would receive, depending on when they start collecting Social Security benefits. It assumes that the FRA is 66, the higher-earning working spouse lives to age 84, and the lower-earning spouse lives to age 89. The lower-earning spouse's Personal Insured Amount (PIA) is \$900, and the higher-earning spouse's PIA is \$1,900.

Consider these benefit strategies for a hypothetical couple

Social Security benefits can potentially grow significantly for married couples depending on which strategy they choose

Strategies		
<i>File and suspend</i>	<i>Restricted application</i>	<i>Maximizing the survivor benefit</i>



File and suspend

Bob, at age **66** (FRA), is eligible for **\$2,000 per month**

Mary, age **62**, would like to retire

- Mary is eligible for **\$400 per month at FRA**
- By retiring at age **62**, she receives **\$300**

*If Bob files and suspends and does not take his benefit until **age 70***

*Mary can file and take spousal benefits. She is eligible for: **\$300** of her own benefits and **\$420** of spousal benefits*

WORKS BEST:

For couples with different earning histories where lower-earning spouse wants to retire.

Suspending benefits could result in an **8% increase year over year until age 70**

Hypothetical example. The “suspending” spouse must have reached full retirement age.
Source: Social Security Administration (Policy RS 00615.250).

Restricted application

Greg and Laura are ready to retire

Claim now

Greg, age **66**, receives **\$2,000 per month**
Laura, age **62**, receives **\$750 per month**
(Laura's FRA at 66 will be \$1,000)

Claim more later

Both claim, but Greg only claims spousal benefits
Greg and Laura together receive **\$1,250 per month**
(Greg receives \$500 and Laura receives \$750)

At age **70**, Greg claims his benefits
Greg and Laura together receive **\$3,390 per month**
(Greg receives \$2,640 and Laura receives \$750)

WORKS BEST: For a household that can initially handle lower monthly checks.

Maximizing the survivor benefit

WORKS BEST:

If the younger spouse is expected to outlive the older spouse and has a lower benefit at FRA.

JOHN TAKES SOCIAL SECURITY AT:



CLAIRE'S BENEFITS over lifetime

Claire's lifetime survivor benefit will grow by **27%** if John waits until age 70 to collect.

This hypothetical assumes John's monthly benefit at ages 62, 66, and 70 is \$1,500, \$2,000, and \$2,640, respectively. Lifetime benefits are determined by calculating the present values of the Social Security payments over time. The present values are calculated by discounting the Social Security payouts by an inflation-adjusted rate of return. The illustrations use the historical average yield of U.S. 10-Year TIPS for discounting. See last slide for additional disclosure.

Benefits after divorce

If the divorcee is age 62 or older, the ex-spouse is entitled to receive benefits

Divorcee benefits

The divorced party may still be entitled to 50% of an ex-spouse's benefits if:

- ✓ Marriage lasted at least 10 years
- ✓ Divorced for at least 2 years
- ✓ Currently unmarried

Divorced survivor benefits

The ex-spouse may be eligible for ex-spouse benefits if:

- ✓ Marriage lasted at least 10 years
- ✓ Not remarried prior to age 60

Please seek the advice of your legal counsel or tax advisor or contact Social Security to assist you with any questions you may have.

Additional considerations

Pension integration

- **Government Pension Offset (GPO)**
- **Windfall Elimination Provision (WEP)**

Other beneficiaries



Government Pension Offset (GPO)

A civil servant pension could reduce spousal or survivor benefits

If you receive pensions from a federal, state, or local government based on work where you did not pay Social Security...

... your spouse's, widow's, or widower's Social Security benefits *may be reduced by two-thirds of your government pension.*

Windfall Elimination Provision (WEP)

Applicable if you qualify for a pension *and* Social Security

SOCIAL SECURITY WEP BENEFITS FORMULA:

You receive	Average Index Monthly Earnings (AIME)
90% of	the first \$816 plus:
32% of	AIME \$816 through \$4,917 plus:
15% of	AIME over \$4,917

90% of the first **\$816** is reduced to **40%** if you worked in Social Security-covered employment for ***less than 20 years***

Your reduction in Social Security benefits cannot exceed **50%**

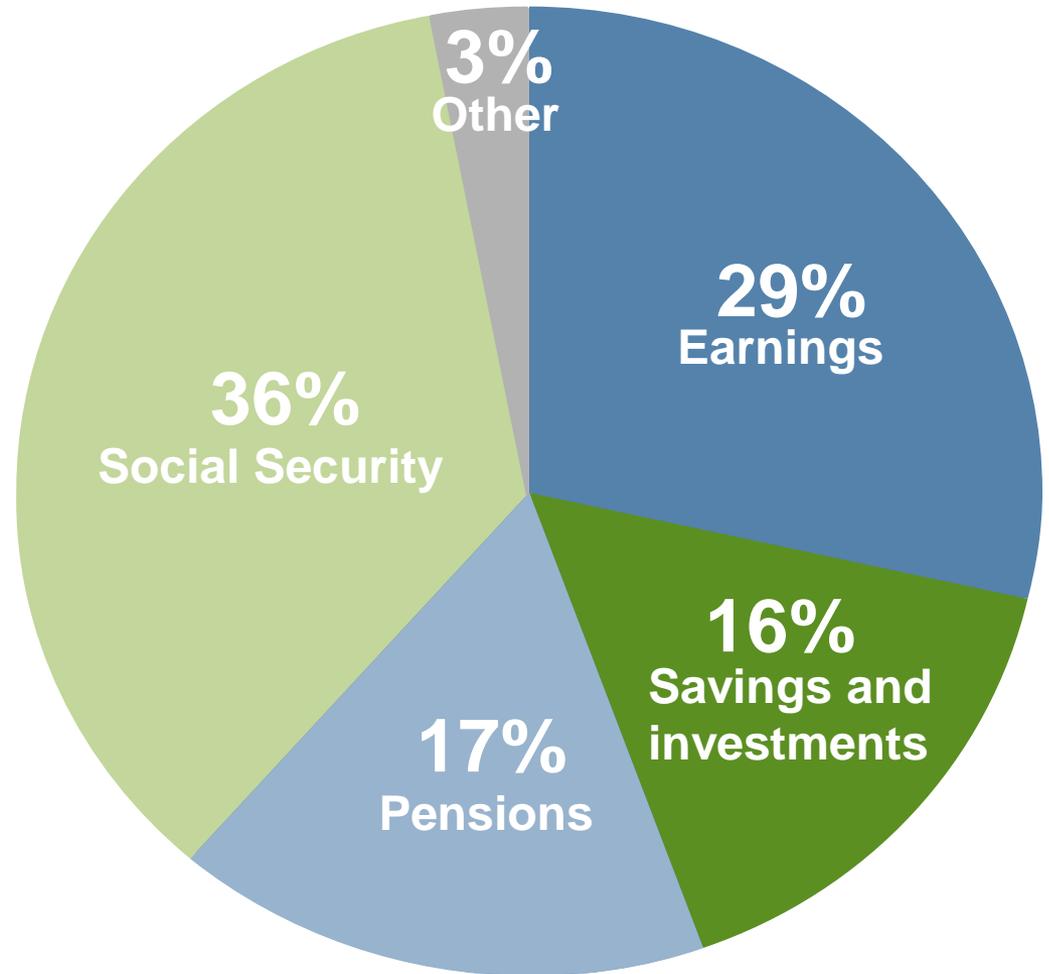
Additional beneficiaries

Who may qualify to receive your benefits:

- ✓ **A spouse 62 years of age or older**
- ✓ **A spouse at any age if that spouse is caring for your child (younger than age 16 or disabled)**
- ✓ **Former spouses age 62 or older**
- ✓ **Unmarried children younger than age 18, or:**
 - **up to age 18 or 19 if full-time student or not yet graduated from high school**
 - **age 18 or older and severely disabled (with a disability that started before age 22)**
- ✓ **Parents who were dependent on you**

Filling the income gap

Most people *do not* rely on Social Security alone in retirement



Note: Data may not total 100% due to rounding.

Source: Fast Facts & Figures About Social Security, 2010, Social Security Administration.

Budgeting income in retirement

Essential expenses may include mortgage, car payments, medical, etc.

These should be covered by
guaranteed income sources:



*Social
Security*

*Annuities**

Pensions

* Subject to the claims-paying ability of the issuing insurance company.

Online resources

Social Security Administration website

<http://www.ssa.gov>

- **Calculators**
- **Applications**
- **Latest information and process documents**
- **Social Security updates**



Next steps



Meet with your financial advisor

***Discuss* retirement budget**

***Develop* a written plan with milestones**

***Schedule* regular check-ins**



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