Addressing the disconnect between intentions and behavior, and between doing what we ought to do and what we want to do.

— Melissa Knoll, Social Security Administration
Dear North American Agent,

We know that you’re in this business for the long-term. So are we.

That’s why we are proud to share our Conversations: Helping Clients Understand Social Security Decision-Making program with you. Our goal is to help you build a business that lasts.

At North American, we see you as our partner. We are different from other annuity companies in that we are privately held, highly rated, and offer annuity products and sales tools you can count on.

We’ve put together this unique educational program to help educate you more fully on Social Security decision-making. We hope that when the situation presents itself and an annuity is the appropriate choice for your clients, that you will choose North American.

The information in this program is basic and you should seek additional training and, when appropriate, advice from competent tax and legal professionals. It’s not comprehensive, but it’s a good first step.

Give our Sales Support team a call at 866-322-7066 to talk about taking your annuity business to the next level!

Sincerely,

North American Company for Life and Health Insurance®

Keep in mind any sales activity should be limited to those products for which you are appropriately licensed. See the North American Compliance Manual for more details.

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“Claiming Social Security is an important financial decision — one that approximately 93% of all Americans will make as they enter into retirement. It is also a complicated decision that requires Americans to understand and weigh a variety of difficult financial concepts while having sufficient Social Security literacy to navigate the thousands of claiming options available. Given the complexity, many studies suggest Americans would welcome help on this critical retirement decision.”

FOR MANY FINANCIAL AND INSURANCE PROFESSIONALS TODAY, the conversation with clients about when to start claiming Social Security benefits happens a lot.

It used to go something like this: “I’ve worked and paid my withholding taxes. Now that I’ve retired from my job, I’m going to start drawing the benefits I’m entitled to.” Sounds simple, right? Like so much else in our industry, it’s not that simple.

“In a just released survey of 55 and older workers, 24% say they are “very confident” and another 53% described themselves as “somewhat confident” that they know enough to make that big decision.

The catch is, when the same respondents took an eight question quiz about crucial Social Security rules, just 5% got all the answers right. Another 22% got 7 correct, while 45% got 3 or more wrong.”

LET’S TAKE A LOOK AT THE BASICS

The Social Security Act defines Full Retirement Age as 66 or 67 depending on date of birth. However, Social Security retirement benefits can be claimed anytime from 62 to 70, but keep in mind that the monthly Social Security check increases for each month waited to claim benefits. For example, claiming at age 62 would represent a 25% reduction from Full Retirement benefits.

Due to what are called Delayed Retirement Credits, benefits increase at 8% a year by waiting to claim from age 66 to age 70. To put it another way: by claiming at 70 rather than 62, a worker will see their percentage of benefits go up by 76%.

Despite the financial incentive to wait, more than 75% of workers go ahead and claim within two months of stopping work or reaching 62 (whichever comes later).

This could be a missed opportunity. Waiting to claim may increase a client’s Social Security benefits for their lifetime. And if the client is the higher earner, waiting can also increase the current and survivor benefits for the spouse.

The importance of deciding when to claim cannot be overstated, particularly for the 62% of retirees who consider Social Security the major source of their retirement income.

MONTHLY SOCIAL SECURITY CHECKS CAN ADD UP TO A RESPECTABLE SUM OVER A LIFETIME. Among households whose head is between 65 and 69 years old, the median expected value of lifetime benefits is $230,000 for singles and $470,000 for couples. For high (90th percentile) income families, the expected value of benefits is even greater: $390,000 for singles and $710,000 for couples.

Thus, for many affluent pre-retirees, future Social Security benefits may be worth more than their retirement accounts or their home.
THE ADVANTAGES OF DELAYING BENEFITS

While someone can start Social Security retirement benefits as early as age 62, deferring the claim can result in higher monthly checks.

1. **Begin at age 62**: Monthly checks = up to 70-75% of Primary Insurance Account (PIA)
2. **Begin at Final Retirement Age (FRA)**: Monthly checks = up to 100% of PIA
3. **Begin after FRA**: After FRA, there is an 8% credit each year you defer starting, up to age 70. At age 70, monthly checks = up to 132% of PIA.

Let’s look at an example of how this could affect a couple’s (Bob and Carol) retirement income, assuming:

- FRA for both spouses = age 66
- Husband Bob’s benefit at FRA = $2,000/month
- Wife Carol’s benefit at FRA = $1,000/month

We’ll also consider an important retirement planning fact: When a spouse dies, the surviving spouse inherits the larger of the two retirement benefits.

<table>
<thead>
<tr>
<th>Age</th>
<th>Action Taken</th>
<th>Wife Carol’s Benefit</th>
<th>Husband Bob’s Benefit</th>
<th>Total Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>62</td>
<td>Claim at age 62</td>
<td>$750/month</td>
<td>$1,500/month</td>
<td>$2,250/month</td>
</tr>
<tr>
<td>66</td>
<td>Wait until FRA</td>
<td>$1,000/month</td>
<td>$2,000/month</td>
<td>$3,000/month</td>
</tr>
<tr>
<td>70</td>
<td>Capture delayed retirement credit</td>
<td>$1,320/month or $2,640/month (if husband dies and he delayed benefits until age 79)</td>
<td>$2,640/month</td>
<td>—</td>
</tr>
</tbody>
</table>

The total difference in combined benefits by delaying until age 70 instead of starting at age 62 for Bob and Carol: $1,710/month or $20,520/year!

“A recent study found respondents approaching the claiming decision do not fully appreciate how critical and complex claiming Social Security can be.

There are literally thousands of claiming strategies for a married couple, and the decision requires an understanding of Social Security as well as other aspects of retirement planning. At the start of the survey, one-quarter of respondents felt very confident in their ability to make a good claiming decision for their household. At the conclusion, more than a third acknowledged that claiming Social Security is more complicated than they thought and four in ten were interested in getting help.

**HIGH CONFIDENCE AND LOW AWARENESS** lead many to underestimate the value of delayed claiming.”
Unbundle the Retirement and Social Security Claiming Decisions

For those pre-retirees who will depend heavily on Social Security to pay living expenses during retirement, there is likely little choice once they exit the workforce other than to claim benefits as soon as possible. The conversation here might be more focused on encouraging them to continue in the workforce for as long as possible, delaying retirement in order to claim larger benefits at a later date.

However, pre-retirees with enough savings can separate the decision of when to claim Social Security benefits from that of when to retire. In this case, when to retire and when to claim Social Security benefits should be separate decisions. For many, it makes sense to retire and claim Social Security on separate dates.

And so it seems counter-intuitive that we find many workers claiming Social Security benefits at around age 62 and delaying withdrawals from personal retirement accounts until after age 70½ when distributions are required. Consider that by doing this these workers are locking in reduced Social Security benefits for themselves and their spouses, plus exposing themselves to potential taxable Social Security income after age 70½. There may be a better way to help people realize a better outcome.

Deciding whether to go ahead and claim benefits or begin withdrawing assets from personal retirement accounts is at the heart of the Social Security decision-making conversation for many people.

Though the advantages of waiting are often clear, many still resist delaying their Social Security claim. “A lot of people just claim it because they don’t want to deplete their savings,” says Michael Falcon, head of retirement at J.P. Morgan Asset Management. “That can be an emotionally comforting thing — but not the right financial decision.”

Waiting to claim means higher benefits for clients and their spouses for as long as they live. Keep in mind that average longevity is greater today than ever before.

DEMystifying SOCIAL SECURITY

When it Pays to Delay Social Security Benefits

It pays for clients to understand their available options. It may make sense for some clients to delay taking some or all of their Social Security benefits.

By Taking Social Security Too Early:

- An individual can leave as much as $100k or more on the table
- A married couple can sacrifice as much as $250k or more

Why?

Social Security benefits increase 6-8% per year. This works out to be a 76% increase in benefits by delaying Social Security for 8 years between 62 and 70.

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An understanding of a client’s decision-making process can be gained by looking at the principles of Behavioral Finance.

Simply stated: Behavioral Finance is a relatively new field that seeks to combine behavioral and cognitive psychological theory with conventional economics and finance to provide explanations for why people make irrational financial decisions.

Robert Schiller won the Nobel Prize in economics in 2013 for his ground-breaking work in Behavioral Finance. But he’s not the first. Daniel Kahneman also won in 2002.

The U.S. Social Security Administration website offers this insight:

“Even as Americans are being called upon to take charge of their financial well-being for retirement, studies have shown that people do not always act in their own best interest. A wealth of judgment and decision-making and behavioral-economics research demonstrates a disconnect between intentions and behavior, and between doing what we ought to do and what we want to do.”

So what is Behavioral Finance and what does it have to do with Social Security decision-making?

Behavioral Finance is a topic explored by multiple Nobel Prize winners in recent history.

Our Sales Support team can help if a decision to delay Social Security payments is made.

North American may be able to provide annuity product solutions to bridge the gap.

Give Sales Support a call at (866) 322-7066.
While some workers are forced from the workforce prematurely due to health and downsizing, many others make a choice to exit in order to start their Social Security benefits.

Behavioral Finance offers an explanation for why this keeps happening.

In the years since Kahneman’s Nobel Prize winning research, economists have come to understand that decisions are influenced by the way information is presented or “framed” to the decision-maker. Individuals do not make decisions based on potential consequences alone. They also look to the broader context in which the decision will take place, and the way in which their choices are framed or presented to them.

Behavioral Finance explains that the way benefits are described (i.e. framed) can influence the choice a client makes. Let’s see how this plays out in practice with the issue of retirement age.

1-2-3-4: Why are so many people claiming Social Security benefits before Full Retirement Age?

Ages People Claim Social Security Benefits

- Age 62: 43%
- Ages 63-65: 30%
- FRA (66): 24%
- Age 67-70: 3%

The chart shows the distribution of retirement ages among claimants, with the majority opting to claim benefits earlier than Full Retirement Age (FRA).
2. Changing the Language We Use

For Social Security benefit purposes, 66 is currently the Full Retirement Age (FRA). Benefits are reduced for each month earlier than age 66 that they are claimed. The earliest that benefits can be claimed is age 62; making 62 the “Earliest Eligibility Age” (EEA). Benefits are increased by “Delayed Retirement Credits” beginning with the Full Retirement Age up to age 70. There are no further benefit increases after age 70. On the other hand, benefits claimed at the EEA will be the lowest and see no increases.

Full Retirement Age does not necessarily entail full retirement benefits. If the individual waits until age 70 they receive the full amount available to them under Social Security. Pursuant to Behavioral Finance, clients can likely achieve better outcomes if age 66 is described to them as the “unreduced retirement age” when they will receive “unreduced” retirement benefits.

Early retirement is a goal of many. When early retirement benefits are described as being accessible at age 62, that may feed into the view that claiming early furthers the goal of retiring early. Instead, EEA should be described as the “fully reduced benefits at retirement age” and the age of “premature retirement benefits,” since individuals get 25% less monthly benefits by not waiting till age 66.

Keep in mind that claiming after age 66 results in “increased benefits.”

REFERENCE POINTS INFLUENCE THE DECISION

In Behavioral Finance, the FRA and EEA would be called reference points. They should be strong influencers in the decision over when to retire and when to claim Social Security benefits.¹³

When people see these reference points, they can become anchored or literally “stuck” on them. Anchoring is a cognitive bias that influences decision-makers to rely too heavily on the first piece of information they receive.

“It seems implausible that at exactly 62 years of age, the majority of individuals are fatigued or dissatisfied with their jobs to the point where they cannot bring themselves to work any longer in order to receive a significantly higher monthly benefit from Social Security. When factoring in that the EEA is 62 as well, it becomes apparent that the retirement spike at 62 is not just a coincidence. In addition to the retirement spike at age 62, another wave of individuals tends to retire at age 65 which was the FRA.”

These retirement spikes, centered on ages relating to Social Security policy, are an example of how the decision context, or the way a decision is framed or presented, can affect individuals’ preferences and behaviors. In this case, retirees appear to anchor on ages that have some retirement significance, however arbitrary. That is, retirees tend to be influenced by particular numbers (ages) associated with specific aspects of Social Security policy.”¹⁵
3. Choice Architecture

"IN ADDITION TO THE ANCHORING EFFECT THAT APPEARS TO TAKE PLACE IN THE CONSIDERATION OF ONE’S RETIREMENT AGE, there is also evidence that the ages on which people anchor serve as reference points. Rather than considering options absolutely, people tend to evaluate options relatively, that is, as gains or losses from a specified reference point."16

One tool for helping clients make better decisions is the way in which their options are framed. Behavioral research shows that an individual’s decision-making process is influenced by their perception of gains and losses.

“Creating decision environments that lead individuals to make the best choices possible is the goal of careful choice architecture, which can be used to (help) potential retirees toward retirement decisions that are more advantageous for them.”17

However, people are motivated more by loss aversion than potential gain. Therefore, illustrating the potential “loss” in benefits possibly suffered by claiming early may well help motivate clients into delaying the claiming decision.

For example, along with the annual Social Security Statement, in the summer of 2008, the Social Security Administration (SSA) began sending out a revised insert entitled “Thinking of Retiring?” (see below) to individuals aged 55 or older (SSA 2009b).

The SSA states: “This insert contains a bar graph that shows how benefits increase as an individual’s benefit-start age increases from 62 to 70. Because graphs typically are read from left to right, age 62 may serve as an implicit reference point, prompting individuals to think in terms of increases in benefits associated with delayed claiming rather than decreases in benefits associated with early claiming. This presentation of benefits may actually impact prospective retirees’ retirement decisions.”20
**BREAK-EVEN APPROACH DOESN’T WORK**

Prior to 2008 when discussing claiming options with clients, Social Security claims representatives were instructed to use a break-even framework, which identifies the age at which the cumulative monetary value of claiming retirement benefits later will exceed the cumulative monetary value of claiming benefits earlier.

By identifying a specific month in which an individual would “break-even,” potential retirees were able to decide if they wanted to claim early and be “ahead” before the break-even age, or claim later and be “ahead” after the break-even age. The notion of the break-even age highlights the fact that an individual will not make up the amount forfeited by delaying claiming unless they live at least as long as the break-even age.

“However, recent decision-making research suggests that explaining the break-even age to prospective retirees may actually push them toward a preference for early benefit claiming.”

On the positive side, Behavioral Finance indicates that pre-retirees are more likely to choose the inflation-indexed lifetime income benefits of Social Security when the benefits are framed in terms of consumption. 

**EXPLAINING THE CONSUMPTION OR SPENDABLE INCOME ADVANTAGE IS IMPORTANT.** Since so few Americans have a solid grasp on Social Security claiming options, many households are likely leaving significant money on the table. The amount of additional expected lifetime benefits that can be gained with the right claiming decision is significant: up to $100,000 more for individuals and $250,000 for married couples.

**THERE’S A TIME TO DISCUSS LIFE EXPECTANCY**

One key facet to the consumption conversation is life expectancy. The longer individuals live, the more benefits they may collect. For married couples, life expectancy for at least one of the survivors will determine the total lifetime benefit of delaying to claim Social Security benefits.

<table>
<thead>
<tr>
<th>Average Life Expectancy</th>
<th>Women</th>
<th>Men</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average life expectancy at 65:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Years</td>
<td>21.5</td>
<td>19.2</td>
</tr>
<tr>
<td>Age</td>
<td>86.5</td>
<td>84.2</td>
</tr>
<tr>
<td>Percent expected to live to age:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>80</td>
<td>75%</td>
<td>67%</td>
</tr>
<tr>
<td>90</td>
<td>39%</td>
<td>29%</td>
</tr>
<tr>
<td>100</td>
<td>5%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Source: SSA, 2013

Having a discussion with clients about life expectancy can be an interesting exercise. No one knows how long they will live. Planning for average life expectancy would mean that a 65 year-old female would expect to live another 21.5 years and reach the age of 86. Average life expectancy represents the age at which half the sample has died and the other half still lives. The Social Security Administration estimates that four out of ten females aged 65 today will live to age 90!

**UNDERSTANDING LIFE EXPECTANCY**

The Social Security Life Expectancy calculator might be a useful reference when having this conversation: 
[www.ssa.gov/OACT/population/longevity.html](http://www.ssa.gov/OACT/population/longevity.html)

Clients can get a more personal view of their life expectancy with sites like Living to 100: 
[www.livingto100.com/](http://www.livingto100.com/)
A lot has been written about the collapse of the traditional “three legged stool” of retirement income sources — Social Security, pension benefits and retirement savings. This has left many individuals even more exposed to the risks of retirement.

This leads to another approach that can be taken with pre-retirement clients: framing the Social Security claiming decision in terms of risk avoidance.

Waiting to claim Social Security can help mitigate four key retirement risks:

1. **Longevity risk** refers to outliving one’s wealth; a common cause is living longer than expected. Waiting to claim Social Security can possibly boost an individual’s guaranteed monthly income, which is especially valuable for those who end up living long lives.

2. **Inflation risk** is something Social Security can also provide a hedge against. This is because, under current law, benefit levels can rise each year to reflect increases in cost of living. The client can increase the monthly Social Security benefit by waiting to claim and that can provide additional inflation protection.

3. **Market risk**, a challenge that all retirees face, is especially pronounced for those who regularly draw down savings to help cover their living expenses. These drawdowns magnify the damage done by declines in the market. By waiting to claim Social Security, the share of income from guaranteed sources increases, thus limiting exposure to future market volatility.

4. **Tax risk.** Finally, there are tax benefits associated with waiting to claim. Up to 85% of a married couple’s Social Security benefits are subject to tax once their income tops $44,000 ($34,000 for singles); for those at lower income levels up to 50% of benefits are taxable. Distributions from IRAs and 401(k)s are included in the income calculation, but only half of Social Security benefits are. If individuals wait to collect Social Security, the larger benefits may enable them to withdraw less from taxable savings; thus making it easier to keep their income below the threshold.

Meet with a tax consultant for more information.

---

A North American Fixed Index Annuity may help your clients protect their retirement assets from these risks.

Call us today at **(866) 322-7066**.
Conversation Thought Starters for a Behavioral Finance-Driven Social Security Decision-Making Experience to Better Serve the Client

1. What are the benefits of delaying retirement?

2. Can the client afford to decouple the retirement date and the Social Security claiming date into separate decisions?

3. Address the reference to specific ages such as Full Retirement Age. Discuss anchors and the need to change reference points to “unreduced and increased” retirement benefits.

4. Frame the choices: the costs of collecting early versus the guaranteed increases for waiting.

5. Frame the options in terms of consumption or total lifetime income. Avoid “break-even” conversations. Explore the client’s life expectancy.

6. Discuss the claiming decision in terms of managing the risks of retirement: longevity, inflation, market volatility and tax benefits.
**Action Plan**

“When it is obvious that the goals cannot be reached, don’t adjust the goals, adjust the action steps.” – Confucius

**Note:** This plan works best for teams but solo practitioners have also used it successfully.

<table>
<thead>
<tr>
<th>Step</th>
<th>Procedure</th>
<th>Completed Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td><strong>Train.</strong> <em>(Estimated time: 10 minutes).</em> You should have read the Conversations guide. Commit to a Social Security decision-making educational program like Horsesmouth. Contact us at (866) 322-7066 for details.</td>
<td>__________</td>
</tr>
<tr>
<td>2.</td>
<td><strong>Listen to the training presentation and discuss with your team.</strong> <em>(Estimated time: 60 minutes).</em> You should have your Conversations Starter Outline to take notes on.</td>
<td>__________</td>
</tr>
</tbody>
</table>
| 3.   | **Prepare the marketing communication plan.** Gather your support team and discuss a process for focusing on helping your clients achieve better Social Security outcomes. Designate a “Social Security Champion” who will help feed and nurture this process.  
   - A. What messaging will you use?  
   - B. What tools will you use to communicate with:  
     - Clients  
     - Prospects  
     - Centers of Influence (COIs)  
   - C. What needs to change in your client experience or process so that you are able to deliver on your Social Security decision-making value proposition?  
   - D. What tools do you need to add so that you can deliver on your Social Security decision-making value proposition?  
   - E. What additional training do you need to deliver on your Social Security decision-making value proposition? | __________ |

"When it is obvious that the goals cannot be reached, don’t adjust the goals, adjust the action steps.” – Confucius
### Action Plan Cont’d

<table>
<thead>
<tr>
<th>Step</th>
<th>Procedure</th>
<th>Completed Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.</td>
<td><strong>Structure the Client Experience.</strong> <em>(Estimated time: 60 minutes).</em> In Conversations, we discuss three general strategies.</td>
<td></td>
</tr>
</tbody>
</table>

**A. How will you present the Social Security materials?**

- Be intentional about the way information is framed to the client. For example, use the FRA and EEA as reference points to put the decision in the context of gains for waiting and losses for claiming early.
- Be aware of anchoring: a cognitive bias that influences decision-makers to rely too heavily on the first piece of information they receive. Encourage clients to decouple the decision about when to retire from the claiming decision.
- Use choice architecture to assist clients by explaining potential loss.
- Frame the advantages of waiting to claim in terms of consumption and life expectancy. Discuss the total lifetime benefits as well as the benefits to the surviving spouse.
- Use risk avoidance to assist clients by discussing how waiting to claim can help mitigate three traditional risks faced in retirement.

**What’s the deadline for implementing this step?** ____________

**Who is the champion for this strategy?** ________________

**B. What are the calculator and illustration tools?**

________________________________________________________

________________________________________________________

**What’s the deadline for implementing this step?** ____________

**Who is the champion for this strategy?** ________________

**C. What is the follow-up plan for communicating with clients?**

________________________________________________________

________________________________________________________

**What’s the deadline for implementing this step?** ____________

**Who is the champion for this strategy?** ________________

| 5.   | **Monitor your progress.** *(Estimated time: 30 minutes).* Set aside time each week for the next 8 weeks to review and discuss your Conversations progress. | ____________ |
REFERENCES

5. Retirement Confidence Survey, ERBI, March 2014
24. This cost-of-living adjustment (COLA) is linked to the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) prepared by the Bureau of Labor Statistics. If CPI-W declines or is unchanged in the third quarter of a given year versus a year earlier, the COLA for the following year is zero. For more details, see www.ssa.gov/cola/2013/factsheet.htm.
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It’s important to have a financially strong carrier on your side. Part of what allows North American to maintain our financial strength is the stability that comes with our unique ownership. As part of a privately held company, we are not subject to the short-term earnings pressures that publicly held companies face. We are a company with plans to perpetuate itself for hundreds of years, not the next quarter or fiscal year. We focus on the long term. We focus on you. North American’s asset quality is excellent. Overall net investment income provides ample margins to cover contractual obligations to all policyowners. North American takes our financial strength seriously and we follow a disciplined and conservative investment strategy.

Portrait of Financial Stability

<table>
<thead>
<tr>
<th>A.M. Best</th>
<th>A+ (Superior)*, °</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard &amp; Poor’s Corporation</td>
<td>A+ (Strong)°, §</td>
</tr>
</tbody>
</table>

Welcome to Retirement 3.0. The rules of the retirement game have changed and more than ever, consumers are looking for advice on “how to do retirement.” They need help to realize better retirement outcomes. We’re launching this new educational program to help you build a more “Client-Centric Retirement Practice.”

Are you ready for the conversation about Social Security Decision-Making?

For more information, call Sales Support at 866-322-7066.

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§ Standard and Poor’s assigned its rating February 26, 2009 and affirmed on May 15, 2014. A+ is the 5th highest of 22 categories.

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