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RETIREMENT INSIGHT

FOR NORTHWESTERN MUTUAL VARIABLE ANNUITY OWNERS

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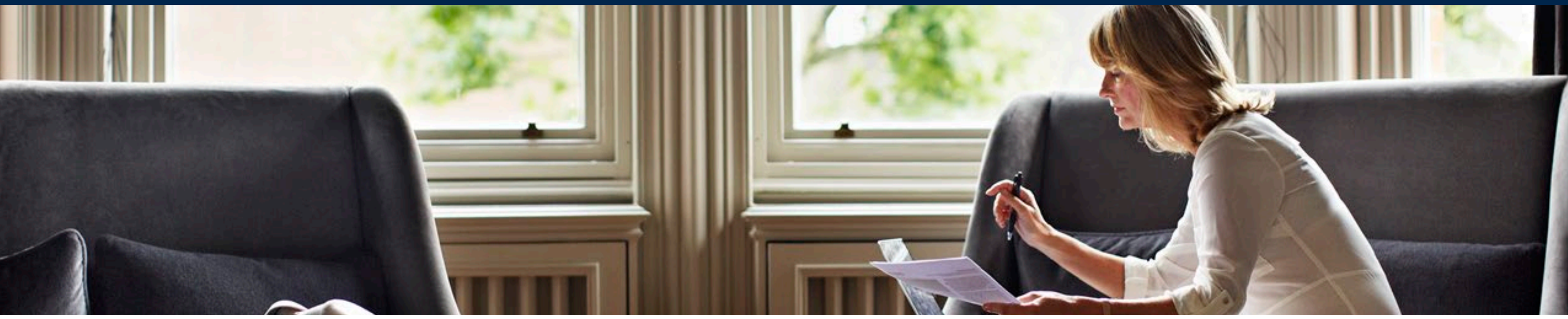

10 ESSENTIAL RETIREMENT TERMS YOU NEED TO KNOW

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Getting ready to retire? As you zero in on this exciting chapter of your life (and certainly once you enter retirement), you're going to have to make a number of decisions that could significantly impact your financial security. Don't let industry jargon stand in the way of making the best choices for yourself and your family.

Here are 10 essential retirement terms you'll need to know:

1. **Full Retirement Age:** Full Retirement Age (FRA) is the age at which you're eligible to receive 100 percent of your Social Security benefit. Depending on when you were born, you'll reach FRA between ages 66 and 67. Knowing your FRA is important because if you choose to collect Social Security before your FRA, you'll receive a reduced benefit for life. If you delay taking benefits until after your FRA, your benefits will increase by 8 percent for each year you delay up to age 70, essentially giving you a permanent raise in retirement.

2. **Spousal Benefits:** Regardless of whether you choose to delay receipt of benefits, there is another strategy that may help you maximize your Social Security income: the spousal benefit. If you are currently married (or have been married and meet certain criteria), the spousal benefit gives you the option to receive either your own benefit or one-half of your spouse's benefit, whichever is greater.

3. **Lifetime Income:** Lifetime income is a retirement term used to define retirement income that you cannot outlive. There are only three sources of guaranteed lifetime income: Social Security, pensions and annuities. Pensions and Social Security provide monthly payments for life—based, in part, on how much you earned during your working years. An annuity is a source of retirement income that you purchase (by making either a series of payments or one lump-sum payment) that also pays a steady income, typically for life.

4. **Retirement Asset Diversification:** Similar to portfolio diversification (i.e., small- and large-cap stocks, bonds, etc.), you benefit from having a variety of retirement assets you can tap into to create your retirement paycheck. By having diverse assets—investments, IRAs, 401(k)s, Roth IRAs and cash value life insurance—you'll have the flexibility to draw from these accounts in ways that will minimize taxes and maximize income in retirement.

5. **Required Minimum Distributions:** As you tap into your various assets to generate retirement income, keep in mind that you'll be required to begin withdrawing funds from your 401(k) or other qualified retirement accounts (and pay taxes on that income) when you reach age 70½, even if you don't want or need the money. These required minimum distributions (RMDs) are mandatory; if you don't comply, you could be penalized by the IRS.

6. **Rebalancing:** Rebalancing is an investment term that takes on added meaning in retirement. Essentially, rebalancing is a way to keep your investments aligned with your time horizon and tolerance for risk. For example, let's say your investment portfolio is made up of 60 percent equities and 40 percent fixed income. If stocks have a great year, your allocation to equities may suddenly represent 70 percent of the value of your portfolio. The good news? You made money. The bad news? With 70 percent of your portfolio now in stocks, you may be taking on more risk than you want. So you'd want to rebalance your portfolio back to a 60/40 alignment by selling some of your winning stocks and spreading the gains to the rest of your portfolio.

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7 **Medicare Parts A, B, C, D:**

- **Part A – Hospital Coverage:** If you qualify for Medicare, you'll pay no monthly premium for Part A coverage in retirement, but you will have to meet the annual deductible before Medicare covers hospitalization.
- **Part B – Non-Hospital Medical Coverage:** (Doctor visits, tests, physical therapy, etc.) You'll pay a standard monthly premium for Part B coverage. This coverage is optional; you might want to opt out if you still have health insurance through a qualifying employer or your spouse.
- **Part C – Medicare Advantage:** Medicare Advantage is an alternative to Medicare Parts A and B and offers coverage through private insurance companies that contract with Medicare. These plans may offer additional benefits such as vision or dental care and may come at an additional cost.
- **Part D – Prescription Drug Coverage:** Part D plans add prescription drug coverage to Medicare and are offered by a number of insurance companies and other private companies approved by Medicare.

8 **Donut Hole:** The "donut hole" is a term that's used to describe a gap (or hole) in Medicare Part D prescription coverage. Once you reach $3,700 in out-of-pocket drug costs, you will pay a larger percentage of the cost of your prescription drugs until you have spent a total of $4,950 in out-of-pocket drug costs. At that point, catastrophic coverage kicks in and you pay a nominal fee for prescription drugs. Being aware of the donut hole can help you budget appropriately for prescription drug costs in retirement.

9 **Long-Term Care:** Long-term care refers to services provided to people who need help with activities such as bathing, eating and dressing. Extended long-term care is not typically covered by health insurance plans and is minimally covered by Medicare. So if you or a loved one needed long-term care in retirement, the financial impact could be profound, not to mention the emotional stress on both you and your loved ones.

10 **Estate Planning:** As you head into retirement, dust off your estate plan and make sure it's up to date. (Or, if you don't have these documents in place, have them created.) A will or trust specifies who gets what after you're gone. An advance directive, or living will, states your preferences for medical care if you're unable to make decisions for yourself. And powers of attorney are people you name who can legally make health care decisions or handle your personal finances on your behalf if you're unable to do so. As you review or create these documents, be sure to also update your beneficiaries on your investment accounts and insurance policies.

While these 10 terms are some of the most common you'll want to know and understand as you head into retirement, you'll no doubt encounter other unfamiliar terms and phrases as you work with your financial professional. Don't be afraid to ask for clarification. When you fully understand the retirement landscape, you'll be more confident about making decisions that are right for you.

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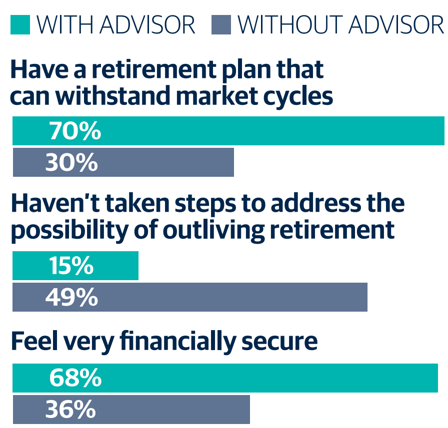

Source: Northwestern Mutual 2017 Planning and Progress Study

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