Back to School
SALES KIT

In this kit:
Sales ideas | Client brochures | Tax credit information

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Education Tax Credits and Deductions

Tax credit vs. tax deduction

A tax credit is more valuable than a tax deduction of the same amount. Why? A tax credit reduces any taxes owed on a dollar-for-dollar basis, whereas a tax deduction simply reduces the total income on which your taxes are based.

For parents and students trying to manage college bills and student loan payments, the federal government offers education-related tax benefits. The requirements for each are different, so here's what you need to know.

American Opportunity credit

The American Opportunity credit (formerly the Hope credit) is a tax credit available for the first four years of a student's undergraduate education, provided the student is attending school at least half-time in a program leading to a degree or certificate. The credit is worth up to $2,500 in 2018 (it's calculated as 100% of the first $2,000 of qualified expenses plus 25% of the next $2,000 of expenses). The credit must be taken for the tax year that the expenses are paid, and parents must claim their child as a dependent on their tax return to take the credit.

To be eligible for the credit, your income must fall below certain limits. In 2018, a full credit is available to single filers with a modified adjusted gross income (MAGI) below $80,000 and joint filers with a MAGI below $160,000. A partial credit is available to single filers with a MAGI between $80,000 and $90,000 and joint filers with a MAGI between $160,000 and $180,000.

One benefit of the American Opportunity credit is that it's calculated per student, not per tax return. So parents with two (or more) qualifying children in a given year can claim a separate credit for each child (assuming income limits are met).

The mechanics of claiming the credit are relatively easy. If you paid tuition and related expenses to an eligible educational institution during the year, the college generally must send you a Form 1098-T by February 1 of the following year. You then file Form 8863 with your federal tax return to claim the credit.

Lifetime Learning credit

The Lifetime Learning credit is another education tax credit, but it has a broader reach than the American Opportunity credit. As the name implies, the Lifetime Learning credit is available for college or graduate courses taken throughout your lifetime (the student can be you, your spouse, or your dependents), even if those courses are taken on a less than half-time basis and don't lead to a formal degree. However, this credit can't be taken in the same year as the American Opportunity credit on behalf of the same student.

The Lifetime Learning credit is worth up to $2,000 in 2018 (it's calculated as 20% of the first $10,000 of qualified expenses). The Lifetime Learning credit must be taken for the same year that expenses are paid, and you must file Form 8863 with your federal tax return to claim the credit. In 2018, a full credit is available to single filers with a MAGI below $57,000 and joint filers with a MAGI below $114,000. A partial credit is available to single filers with a MAGI between $57,000 and $67,000 and joint filers with a MAGI between $114,000 and $134,000.

Unlike the American Opportunity credit, the Lifetime Learning credit is limited to $2,000 per tax return per year, even if more than one person in your household qualifies independently in a given year.

If you have more than one family member attending college or taking courses at the same time, you'll need to decide which credit to take.

Example: *Joe and Ann have a college freshman and sophomore, Mary and Ben, who are attending school full-time. In addition, Joe is enrolled at a local community college taking two graduate courses related to his job. Mary and Ben each qualify for the American Opportunity credit. Plus, Mary, Ben, and Joe each qualify for the Lifetime Learning credit. Because the American Opportunity credit isn't limited to one per tax return, Joe and Ann should claim this credit for both Mary and Ben, and then claim a Lifetime Learning credit for Joe. Joe and Ann can claim both the American Opportunity credit and the Lifetime Learning credit in the same year because each credit is taken on behalf of a different qualified student.*

Student loan interest deduction

The student loan interest deduction allows borrowers to deduct up to $2,500 worth of interest paid on qualified student loans. Generally, federal student loans, private bank loans, college loans, and state loans are eligible. However, the debt must have been incurred while the student was attending school on at least a half-time basis in a program leading to a degree, certificate, or other recognized educational credential. So loans obtained to take courses that do not lead to a degree or other educational credential are not eligible for this deduction.

Your ability to take the student loan interest deduction depends on your income. For 2018, to take the full $2,500 deduction (assuming that much interest is paid during the year) single filers must have a MAGI of $65,000 or less and joint filers $135,000 or less. A partial deduction is available for single filers with a MAGI between $65,000 and $80,000 and joint filers with a MAGI between $135,000 and $165,000.

Also, to be eligible for the deduction, an individual must have the primary obligation to pay the loan and must pay the interest during the tax year. The deduction may not be claimed by someone who can be claimed as a dependent on another taxpayer's return. Borrowers can take the student loan interest deduction in the same year as the American Opportunity credit or Lifetime Learning credit, provided they qualify for each independently.

Deduction for qualified higher education expenses

The deduction for qualified higher education expenses is not available in 2018 but was for tax year 2017. In 2017, it was worth up to $4,000 for out-of-pocket qualified higher education expenses paid during the year; single filers with a modified gross income (MAGI) of $65,000 or less and joint filers with a MAGI of $130,000 or less could take the full $4,000 deduction. A $2,000 deduction was available for single filers with a MAGI between $65,000 and $80,000 and joint filers with a MAGI between $130,000 and $160,000.

Comparison of Credits/Deductions

	MAGI limits for 2018	**Qualified expenses include**
American Opportunity credit **$2,500**	Single filer: $80,000 or less for full credit; partial credit if MAGI $80,000 to $90,000 Joint filer: $160,000 or less for full credit; partial credit if MAGI $160,000 to $180,000	Tuition and fees, plus course materials
Lifetime Learning credit **$2,000**	Single filer: $57,000 or less for full credit; partial credit if MAGI $57,000 to $67,000 Joint filer: $114,000 or less for full credit; partial credit if MAGI $114,000 to $134,000	Tuition and fees only
Student loan interest deduction **$2,500**	Single filer: $65,000 or less for full deduction, partial deduction if MAGI $65,000 to $80,000 Joint filer: $135,000 or less for full deduction; partial deduction if MAGI $135,000 to $165,000	Tuition and fees, room and board, books, equipment, and other necessary expenses
Deduction qualified higher education expenses **$4,000 (full); $2,000 (partial)**	Not available in 2018	Tuition and fees only

For more information, see IRS Publication 970.

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LIFE INSURANCE QUICK ESTIMATOR

How Much Life Insurance Is Enough?

Client Name ______________________ Date ______________

This worksheet provides a quick and simple method to estimate the amount of life insurance you will need.

INCOME

1. **Annual before-tax income your family would need if you died today**
   Typically between 60% and 80% of total income. Include all salaries, dividends, interest, and any other sources of income. $ 0
2. **Annual income available to your family from other sources**
   Include dividends, interest, and spouse's earnings. (Social Security may be available.) $ 0
3. **Annual income to be replaced** (Subtract line 2 from line 1.) $ 0
4. **Capital needed for income**
   Multiply line 3 by the appropriate factor below: 10 years $ 0

Years Income Needed	10	15	20	25	30	35	40	45	50
Factor[1]	9.4	13.6	17.5	21.1	24.5	27.7	30.6	33.3	35.9

EXPENSES

5. **Funeral[2] and other final expenses**
   Typically the greater of $15,000 or 4% of your estate $ 0
6. **Mortgage and other outstanding debts**
   Include mortgage balance, credit card debt, car loans, home equity loans, etc. $ 0
7. **College costs[3]** 2016-2017 average annual "total" cost of four-year public and private colleges: public in-state: $24,610; public out-of-state: $39,890; private college: $49,320

	Annual Amount	X	Number of Years in College =	Total Cost ($)
Child 1		X		$0
Child 2		X		$0
Child 3		X		$0
Child 4		X		$0
Child 5		X		$0
Total Capital Needed for College				

$ 0

8. **Total value of all you do:** The cost of daily activities [Use the calculator on page 2.] $ 0
9. **Total capital required** (Add lines 4, 5, 6, 7, and 8) $ 0

ASSETS

10. **Savings and investments**
    Bank accounts, CDs, stocks, bonds, mutual funds, real estate/rental property, etc. $ 0
11. **Retirement savings**
    IRAs, 401(k) plans, SEPs, pension, and profit sharing plans $ 0
12. **Present amount of life insurance**
    Include group insurance and personal insurance purchased on your own $ 0
13. **Total of all assets** (Add lines 10, 11, and 12.) $ 0
14. **Estimated amount of additional life insurance needed** (Subtract line 13 from line 9.) $ 0

[1] Inflation is assumed to be 3%. The rate of return on investments is assumed to be 4.5%. College inflation rate is assumed to be 4.5%.
[2] The national median cost of a funeral with burial for calendar year 2014 is $7,181. Retrieved on 3/1/2016 from http://nfda.org/about-funeral-service-/trends-and-statistics.html.
[3] Source: The College Board, Trends in College Pricing 2016, Figure 1. Costs include tuition, room, board, books and supplies, transportation, and other expenses for a resident. The College Costs numbers are the 2016-2017 national average for a four-year college or university.

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Prudential
Bring Your Challenges®

CALCULATOR The Value of All You Do

Client Name ______________________ Date ____________

If something were to suddenly happen to you, your family might have to hire others to take on some of your daily activities. You'd be surprised at how all you do adds up!

- To see just how much, estimate the number of hours per week that you spend on each of the activities below.
- The final cost will then be part of the calculation of how much life insurance you need. Even if you earn no income, insurers generally allow you to get as much life insurance as your working spouse has.
- To get a full picture of your insurance needs, be sure to look at your spouse's life insurance coverage, too.

Services	Hours per Week	Hourly Rate[4]	Estimated Weekly Cost	Number of Years	Estimated Total Cost
Child Care	0	$9	$0	0	$0
Driving Family Members	0	$10	$0	0	$0
Tutoring / Home Schooling	0	$25	$0	0	$0
Housekeeping / Home Mgmt.	0	$8	$0	0	$0
Food Preparation	0	$12	$0	0	$0
Bookkeeping	0	$12	$0	0	$0
Yard Care & Maintenance	0	$25	$0	0	$0
Home Maintenance & Repair	0	$10	$0	0	$0
Parental Care	0	$10	$0	0	$0
Other	0	$10	$0	0	$0
Other	0	$10	$0	0	$0
				Estimated Total Costs	$0

This is how much life insurance you would need to cover these services[5] **$0**

[4] Based on current market rate averages.

[5] Inflation is assumed to be 3% and life insurance proceeds are invested to earn 4.5% after tax. The earnings on the life insurance proceeds, plus spending down the life insurance proceeds, will be used to cover these expenses over the expected period. The return is purely hypothetical and is used for illustrative purposes only. Performance results are not indicative of any particular investment. Actual results and investment risks will vary.

Life insurance policies are issued by The Prudential Insurance Company of America, Newark, NJ, and its affiliates. Life insurance policies contain exclusions, limitations, reductions of benefits, and terms for keeping them in force. Your financial professional can provide you with costs and complete details.

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SAVE FORM PRINT FORM RESET FORM GO TO PG 1

Prudential
Bring Your Challenges®

John Hancock
LIFE INSURANCE

Financing the Future

Supporting College Funding through Life Insurance

Individuals purchase life insurance because the death benefit can help pay off mortgages or other debts, replace salary income, pay estate taxes or equalize the inheritance left to heirs. But the benefits of life insurance extend even further than that, especially permanent life insurance that has the potential for high cash value. While cash value can often be used to supplement retirement planning, cash value can also be used to fund future college needs.

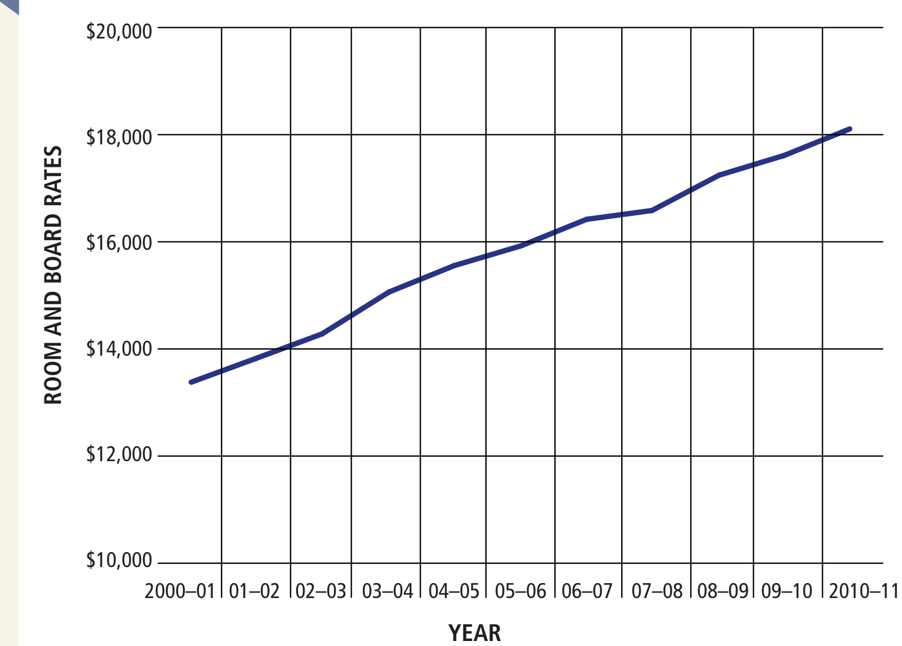
College Funding

Your client may be looking for additional ways to supplement their college funding plan in addition to the traditional funding methods available, such as 529 plans and other types of savings accounts. Perhaps they have maxed out their 529 plan contributions. Or, maybe, they are concerned that their child's objectives may change in the future and are worried about the potential tax consequences and penalties of liquidating those type of accounts. Using a permanent life insurance policy as a college funding supplement offers a flexible alternative plan. Let's start by taking a look at some of the benefits a permanent life insurance policy can provide.

How Life Insurance Can Help

First and foremost, purchasing a permanent life insurance policy provides a tax-free death benefit to a client's family. This death benefit acts as a self-completion vehicle by providing the source of funds necessary to pay for college expenses should they die prematurely. The cash value of a life insurance policy will grow tax deferred and can be accessed via tax-free withdrawals (up to basis) and loans to help supplement a child's college expenses. Should the child's objectives change in the future, the life insurance policy cash value provides the flexibility to use the funds for other purposes, such as supplemental retirement income.

Total tuition, room and board rates for full-time undergraduate students in degree-granting institutions



*Source: U.S. Department of Education, National Center for Education Statistics. (2012)

Education Costs on the Rise

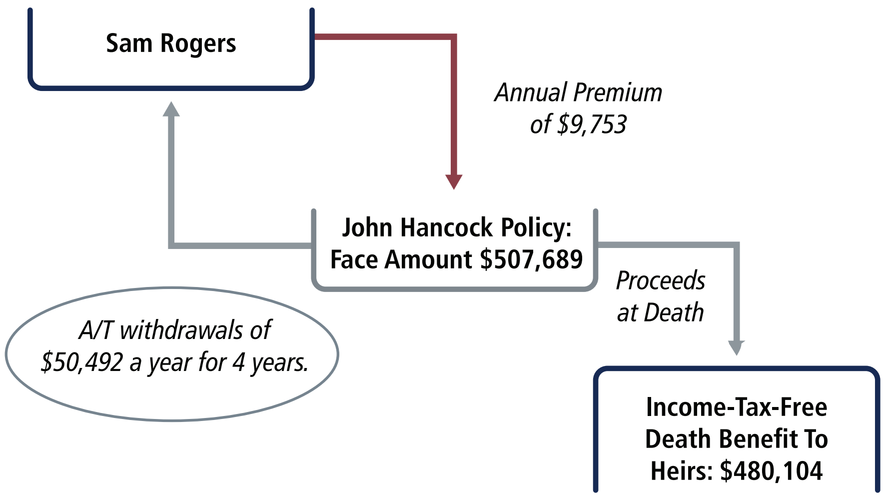
Budgets may be tight for most Americans, but that hasn't stopped the rise in college and university tuitions. Unfortunately, the cost of attending college seems to rise significantly on an annual basis. In fact, according to the U.S. Department of Education, between the school years of 3000–2001 and 2010–2011, prices for undergraduate tuition, room and board at public institutions rose 42% (with private not-for-profit institutions rising 31%).

Did you know the average family pays only 46% of total college attendance with savings? The rest is supplied through borrowing, grants, loans and gifting.

Meet Sam

Sam Rogers, age 30, Preferred Non Smoker, has one child who will be starting college in 16 years. After his annual policy review with his financial advisor, it was determined that he had a $500,000 shortfall in death benefit protection. After looking at his current college savings plan, his advisor estimated that he would have a projected annual shortfall of approximately $50,000 during his child's college years to cover the cost of tuition. Sam purchased a John Hancock Accumulation Indexed UL policy and paid annual premiums of $9,753 for 15 years at an assumed 7% Capped Indexed account rate.

How it Works at Focus Year



The result? Should something happen to Sam, his family will have $500,000 that can be earmarked for his child **INCLUDING** future college tuition. In 16 years, Sam can take distributions from the cash value to help pay for college **BUT** if his child changes his mind, he can leave the money in the policy and access it at a future time; there is no mandate that the money has to be used for college expenses.

This is a supplemental illustration. Not all benefits and values are guaranteed. The assumptions on which the non-guaranteed elements are based are subject to change by the insurer. Actual results may be more or less favorable. As the example illustrates, at the end of 15 years, Sam can take distributions to satisfy his college fund shortfall in years 16-19. Through the purchase of the policy, Sam has created the chance for both protection and opportunity for the future.

JH Solutions | Our Proprietary Planning Software

Younger clients can face a dilemma — they need to provide for their children should something happen to them, but they also want to save for their children's college education. Life insurance may help satisfy both needs. By utilizing the efficiency of a cash value life insurance policy, clients may be able to provide both a valuable death benefit for their family and accumulate tax-favored savings that can be used for college, through the same policy. Use JH Solutions (John Hancock's proprietary concept illustration software) to illustrate the new College Funding module.

Life insurance death benefit proceeds are generally excludable from the beneficiary's gross income for income taxes. There are a few exceptions such as when a life insurance policy is transferred for valuable consideration.

Loans and withdrawals will reduce the death benefit, cash surrender value, and may cause the policy to lapse. Lapse or surrender of a policy with a loan may cause the recognition of taxable income. Policies classified as modified endowment contracts may be subject to tax when a loan or withdrawal is made. A federal tax penalty of 10% may also apply if the loan or withdrawal is taken prior to age 59½.

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College Funding with Accumulation VUL

Helping Clients Reach Their Goals

Many parents are concerned about the rising cost of college education. While there are a variety of products in the marketplace, they need a plan that will give them the most flexibility as well as provide protection for their family should something happen to them.

Know the facts

A four-year, private education is estimated to jump to a total of $416,888 by 2034.[1]

In addition to offering a death benefit to protect against the unexpected, Accumulation VUL can offer potential tax-favored cash build up in the policy to help pay for college expenses. Clients can choose from a diversified range of underlying investment accounts that represent nearly every major asset class and investment style, or opt for the simplicity and automatic diversification offered by John Hancock's Lifestyle MVP Portfolios.

The advantages of using Accumulation VUL for college funding

More advisors are realizing that Accumulation VUL has advantages and flexibility over other types of college savings vehicles. Unlike other college savings vehicles, premiums paid into an Accumulation VUL policy have little to no limitations. Best of all, the product's potential cash value can be used for a myriad of expenses associated with higher education. For example, it can be used for travel expenses, and spending money, and is not restricted to qualified higher education costs. If the child decides to go to college, the money is there to access on a tax-favored basis. Or, if the child changes their mind and does not attend school, the cash can be used toward other future goals, such as retirement.

Understanding the difference:

Options*	Grows Tax Deferred	Tax-Free Distributions	Excluded from Financial Aid on Federal Level	No Penalty if Not Used for Higher Education
Accumulation VUL	✓	✓	✓	✓
529 Plans	✓	✓	✗	✗
UTMA/UGMA Accounts	✗	✗	✗	✓
Coverdell Education Plan	✓	✓	✗	✗
Mutual Funds	✗	✗	✗	✓

*Based on Year 2014 rules.

Achieving balance with the Lifestyle MVP Portfolios

Helping secure your clients financial goals may be easier than you think. When John Hancock's Lifestyle MVP funds are selected within an Accumulation VUL policy, you have the power to help your clients protect their assets and build wealth.

In one easy step, the Lifestyle MVP Portfolios provide immediate diversification through a single investment that can address different levels of risk tolerance. Your client simply chooses the level of risk he/she is comfortable with, then selects the corresponding portfolio, and John Hancock Asset Management (JHAM) will make the appropriate investment choices.

There are five Lifestyle MVP Portfolios (Aggressive, Growth, Balanced, Moderate and Conservative) that utilize a managed volatility approach, which seek to manage the total portfolio volatility of returns and limit the magnitude of portfolio losses.

In all, many advisors are realizing that Accumulation VUL's tax benefits, flexibility and growth potential make it a compelling solution for college funding and planning for future life events.

1. www.jhinvestments.com, College Savings Planner Calculator

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Allocating net premiums to a Lifestyle MVP Portfolio is designed to help reduce the market volatility that one may experience through the allocation of premiums to only one or a small number of investment options. There are risks associated with any investment allocation and it is possible to lose money by investing in Lifestyle MVP Portfolios.

Loans and withdrawals will reduce the death benefit, cash surrender value, and may cause the policy to lapse. Lapse or surrender of a policy with a loan may cause the recognition of taxable income. Policies classified as modified endowment contracts may be subject to tax when a loan or withdrawal is made. A federal tax penalty of 10% may also apply if the loan or withdrawal is taken prior to age 59½.

Insurance policies and/or associated riders and features may not be available in all states.

Variable life insurance is sold by product and fund prospectus, which should be read carefully. They contain information on the investment objectives, risks, charges and expenses of the variable product and its underlying investment options. These factors should be considered carefully before investing. Product and/or product features may not be available in all states.

Variable universal life insurance has annual fees and expenses associated with it in addition to life insurance related charges. Variable universal life insurance products are subject to market risk and are unsuitable as a short term savings vehicle. Cash values are not guaranteed and will fluctuate, and the policy may lose value.

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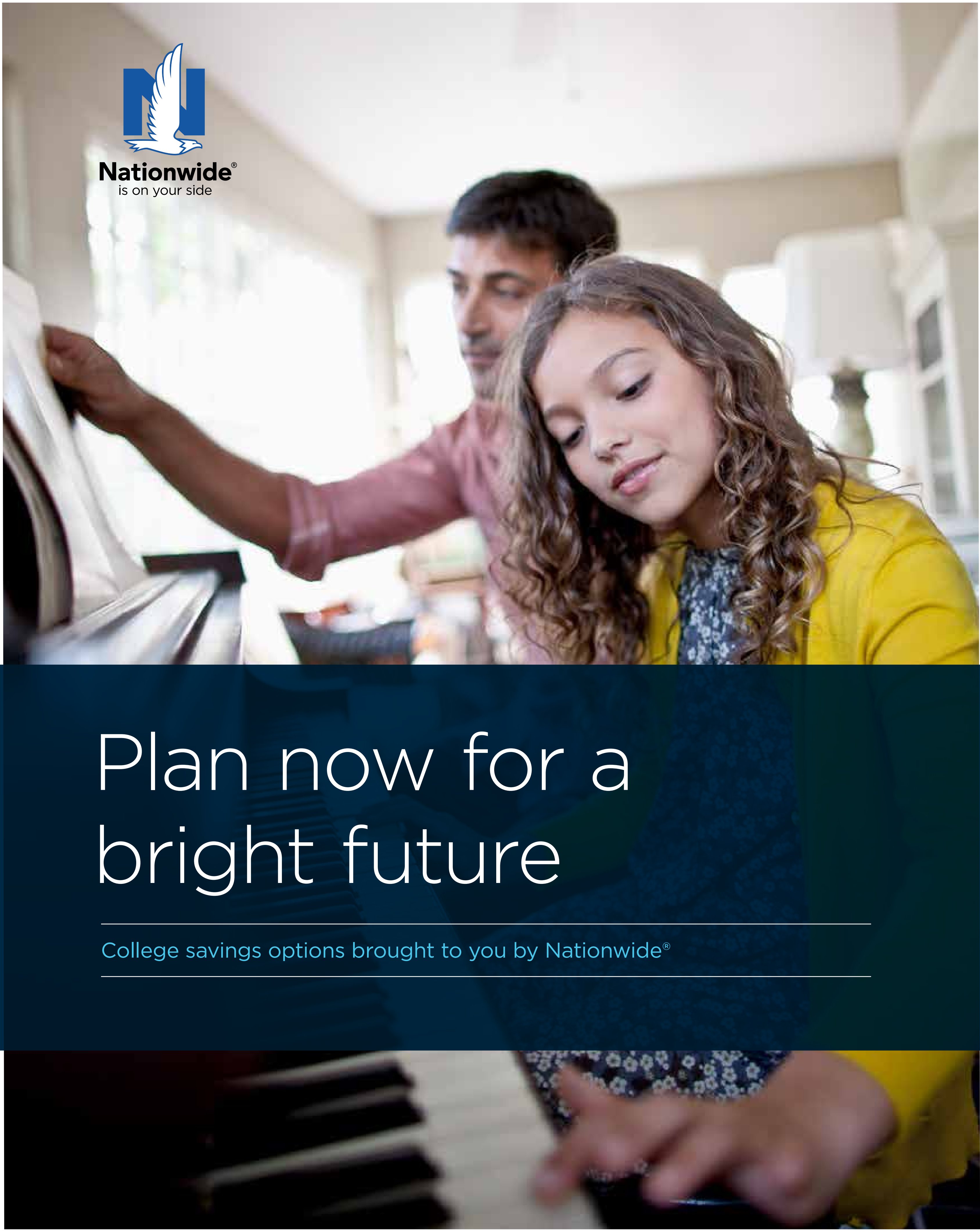


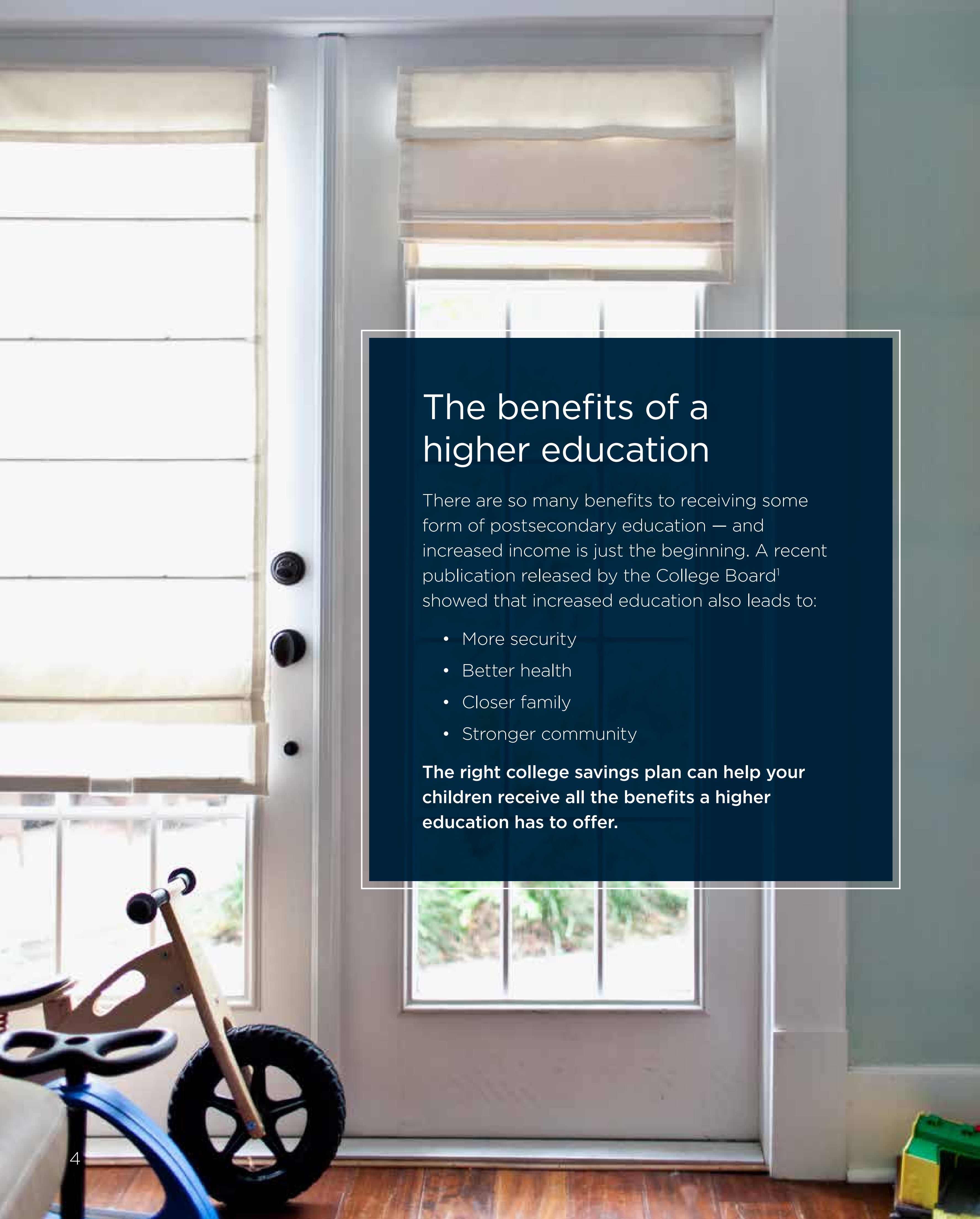
Plan now for a bright future

College savings options brought to you by Nationwide®

Many parents want to give their children the tools they need to succeed in life, including some form of higher education. But knowing the best way to save for that education can be challenging — especially if you're saving for retirement at the same time.

Many options are available to you, though, and this brochure is designed to provide the information you need to help put a college savings plan in place that works for you and your family.

What's inside?



The benefits of a higher education

There are so many benefits to receiving some form of postsecondary education — and increased income is just the beginning. A recent publication released by the College Board[1] showed that increased education also leads to:

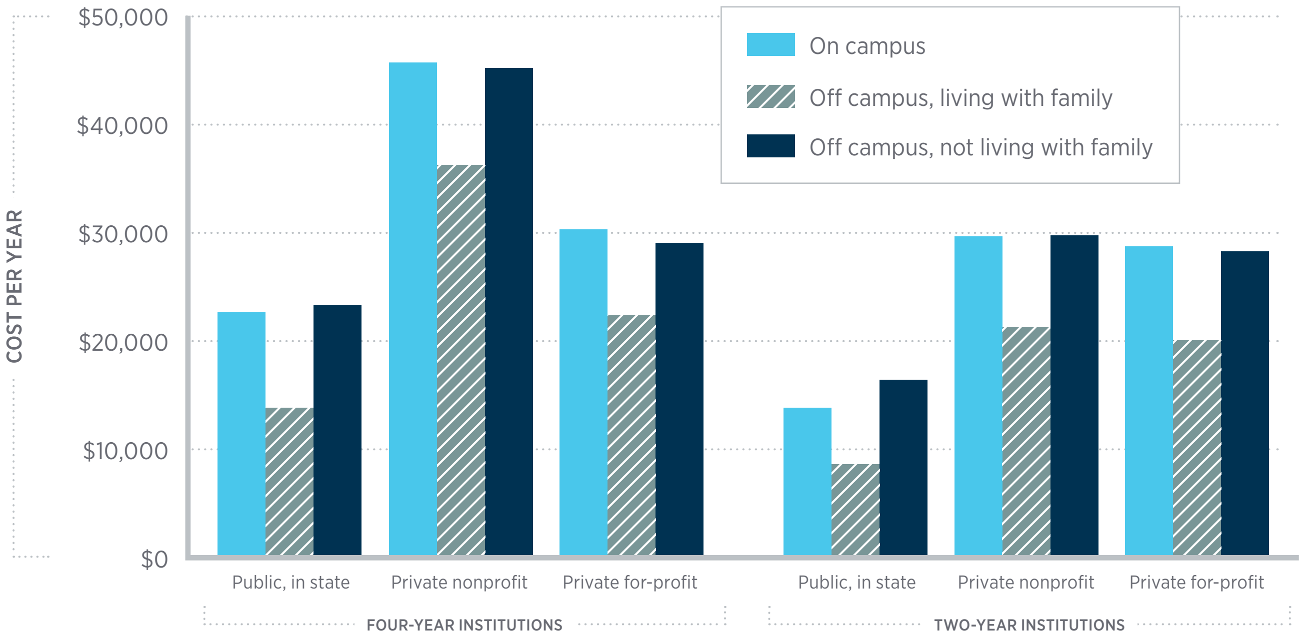
- More security
- Better health
- Closer family
- Stronger community

The right college savings plan can help your children receive all the benefits a higher education has to offer.

Understanding the cost

Will your child be accepted into an Ivy League school, or choose a state school? Either way, it helps to know what each option costs as you start the planning process.

Average total cost of attending degree-granting institutions for first-time, full-time students, by level and control of institution and student living arrangement: academic year 2014–15[2]



As you can see in this chart, attending a private school costs about twice as much as attending a public school in your own state.

These costs continue to rise at a rate of roughly 5% per year, so the time to start planning is now.

The average cost for a four-year education for students enrolling in 2024 is estimated to be $127,444.[3]

1 http://advocacy.collegeboard.org/five-ways-ed-pays/home, 02/14/13.
2 http://nces.ed.gov/pubs2016/2016144.pdf, May 2016.
3 http://www.collegecalc.org/calculators/plan-and-save/?age=10&cost=20000, average public, in-state tuition, 11/08/16.

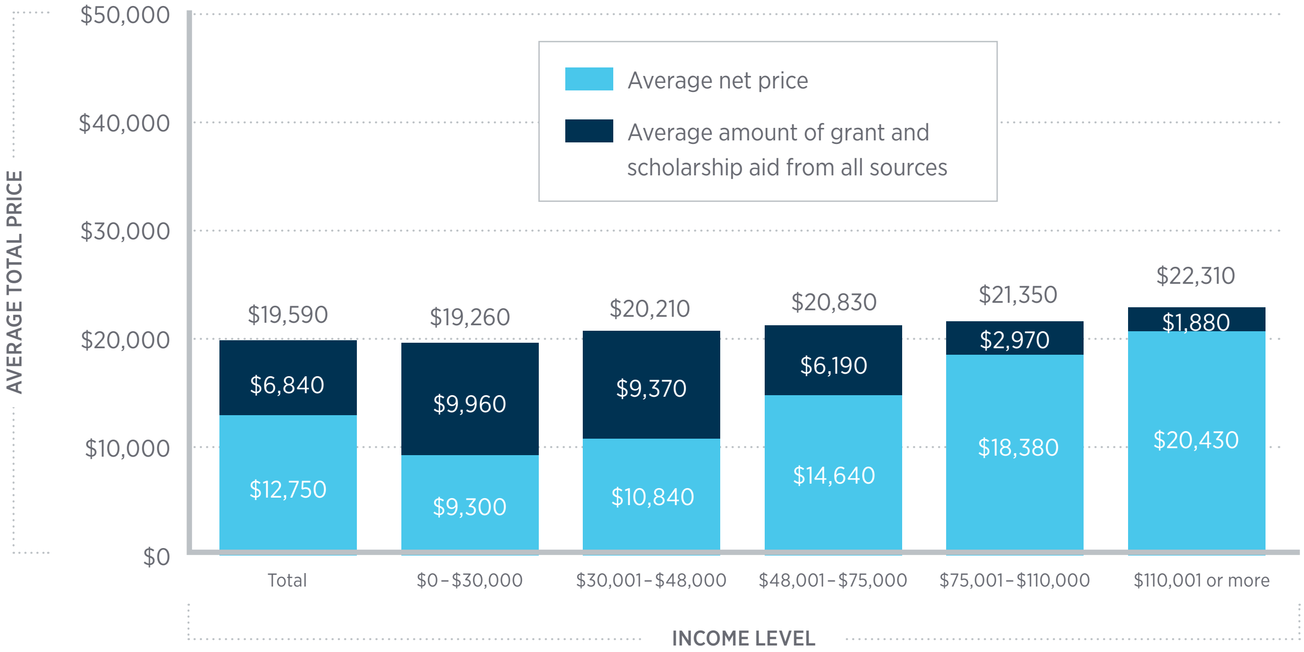
Know your funding options

Now that you have a better idea of the costs, it's time to review some of the funding options available.

Scholarships, financial aid or loans

Many students will receive some form of financial aid, including grants, scholarships and/or loans. Even with this help, a large portion of tuition and expenses may not be covered.

Average total cost, net price, and grant and scholarship aid for first-time, full-time students paying in-state tuition and receiving aid at 4-year public institutions, by family income level: academic year 2013–14[4]



The "All income levels" section of this chart indicates that the average amount of aid received by students was less than 35% of the average total price.

Many of us would like to be able to pay for all of these additional costs out of current income, but that's not always a realistic solution. Luckily, a number of tax-advantaged options are available to help you build a college funding account.

[4] http://nces.ed.gov/pubs2016/2016144.pdf, May 2016.

Coverdell Education Savings Account (ESA)

By making nondeductible contributions to a Coverdell ESA prior to a child's 18th birthday, parents, grandparents, aunts, uncles, friends and neighbors — even companies and organizations — can help fund his or her education.

Other important information about Coverdell ESAs:

- Withdrawals will be free of federal income tax when used for qualifying education expenses
- Withdrawals for any other purpose are subject to income tax and a 10% tax penalty
- Covered expenses include tuition and fees, computers, books, school supplies, tutoring, uniforms, room and board (for students who are at least half-time students), and more
- Maximum annual income limits for donors: $220,000 for joint filers, $110,000 for individuals
- Contributions can't be made after the beneficiary attains age 18
- Special estate and gift taxes apply

Custodial accounts

You could also use a taxable investment account, which offers more flexibility, to build a college fund. There is no limit on annual contributions or the contributor's income level.

If you are the child's parent, you may wonder whether to title this account in your name, or set up a custodial account in the child's name under the Uniform Gifts to Minors Act (UGMA) or Uniform Transfers to Minors Act (UTMA).

The differences between keeping the account in your name and transferring the funds to the child under UGMA or UTMA are detailed here.

	Taxable account in your name	Custodial account in child's name
Taxes	All earnings taxed at your personal tax rate	Children under age 19 and dependent full-time students under age 24 with unearned income of less than $2,000 will be taxed at the child's tax rate; unearned income received over $2,000 may be taxed at the parent's tax rate
Eligibility for financial aid	Colleges expect you to use a lower percentage of your own assets for college expenses	Colleges expect the child to use a higher percentage of the assets in his/her name for college expenses
Control	You have full control over how the money is used	Your child can use the money for anything at age 18 or 21, depending on state law

Section 529 College Savings Plan

Section 529 College Savings Plans are sponsored by individual states but are generally open to any other state's residents.

When you make a nondeductible contribution to a 529 Plan, you can select investments from a variety of professionally managed portfolios. Your choices usually include one or more age-based portfolios, making it easy to shift from a more aggressive to a more conservative asset allocation as your child nears college age.

Earnings are tax deferred and education-related withdrawals are free of federal income tax; however, funds may be used only for college or graduate-school expenses. Other key features include:

- No income limit for donors
- Possible state tax deduction for in-state participants
- Special estate and gift taxes apply; the gift provision allows the donor to treat gifts in a single year as if they were made proportionately over five years; for example, a donor can give $70,000 in one year and treat it as if $14,000 were given in that year and each of the following four years, using the exclusions applicable to each year

Individual Retirement Account (IRA)

You can take distributions from your IRA — whether a traditional IRA, Roth IRA or SIMPLE IRA — to pay for qualified higher education expenses without having to pay the 10% early distribution penalty. These distributions are still subject to income taxes.

Distributions from your IRA can be used to cover educational expenses for you, your spouse, your children or grandchildren, or your spouse's children or grandchildren.

It's also important to note that:

- Qualified expenses include tuition, fees, books, supplies, equipment required for enrollment or attendance, and room and board (as long as the student is enrolled at least half-time)
- Eligible educational institutions include any college, university, vocational school or other postsecondary educational institution eligible to participate in a student aid program administered by the U.S. Department of Education
- There is no limit on the amount you can withdraw
- Any amount withdrawn above the adjusted qualified educational expenses (total expenses minus other tax-free assistance) will be subject to the 10% early distribution penalty

Any funds not used for educational purposes are still available within the IRA for retirement income later on.

Please remember, neither Nationwide nor its representatives give tax advice. Please consult your tax advisor for answers to your specific questions.

How they compare

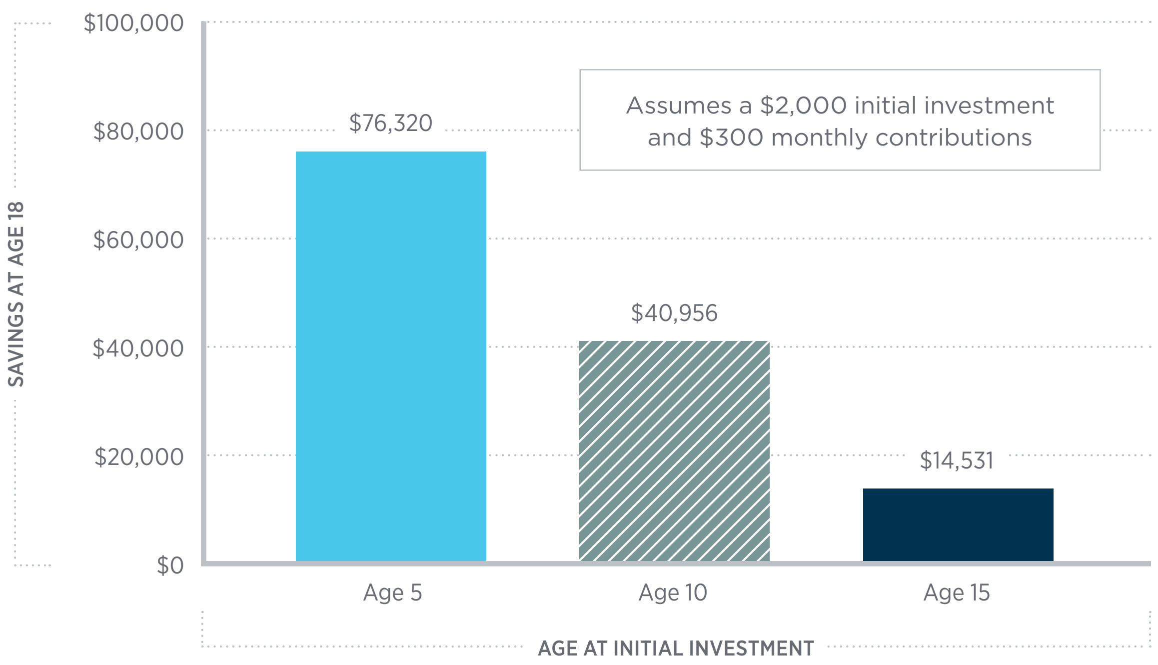
	Coverdell ESA	Custodial account (UGMA/UTMA)	529 College Savings Plan	IRA
Tax treatment of earnings (Contributions nondeductible)	Tax free when used to pay qualified education expenses	Children under age 19 and dependent full-time students under age 24 with unearned income of less than $2,000 will be taxed at the child's tax rate; unearned income received over $2,000 may be taxed at the parent's tax rate	Tax free when used to pay qualified education expenses	Subject to ordinary income taxes; qualified educational expenses are not subject to the additional 10% tax for early distribution
Child's access to fund	Can use only for qualified education expenses	Unlimited access at age 18 or 21, depending on UGMA/UTMA state law	Can use only for qualified education expenses	No access; you retain control of the account
Eligibility for financial aid	Included in child's expected contribution	Included in child's expected contribution	Included in parents' expected contribution	Not included in parents' expected contribution
Investments	Broad choice	Broad choice	Preselected portfolios only	Broad choice
Treatment of unused funds	May be used for another family member's education	Belongs to child	May be used for another family member's education	May still be used for retirement
Maximum annual contribution	$2,000 per child, from all sources	Unlimited, but transfers of more than the annual gift tax exclusion (currently $14,000 per donee), may be subject to the federal gift tax	Varies by plan	Varies by year; 2013 contribution limit is $5,500 ($6,500 if you are age 50 or older)

Why the time to start saving is now

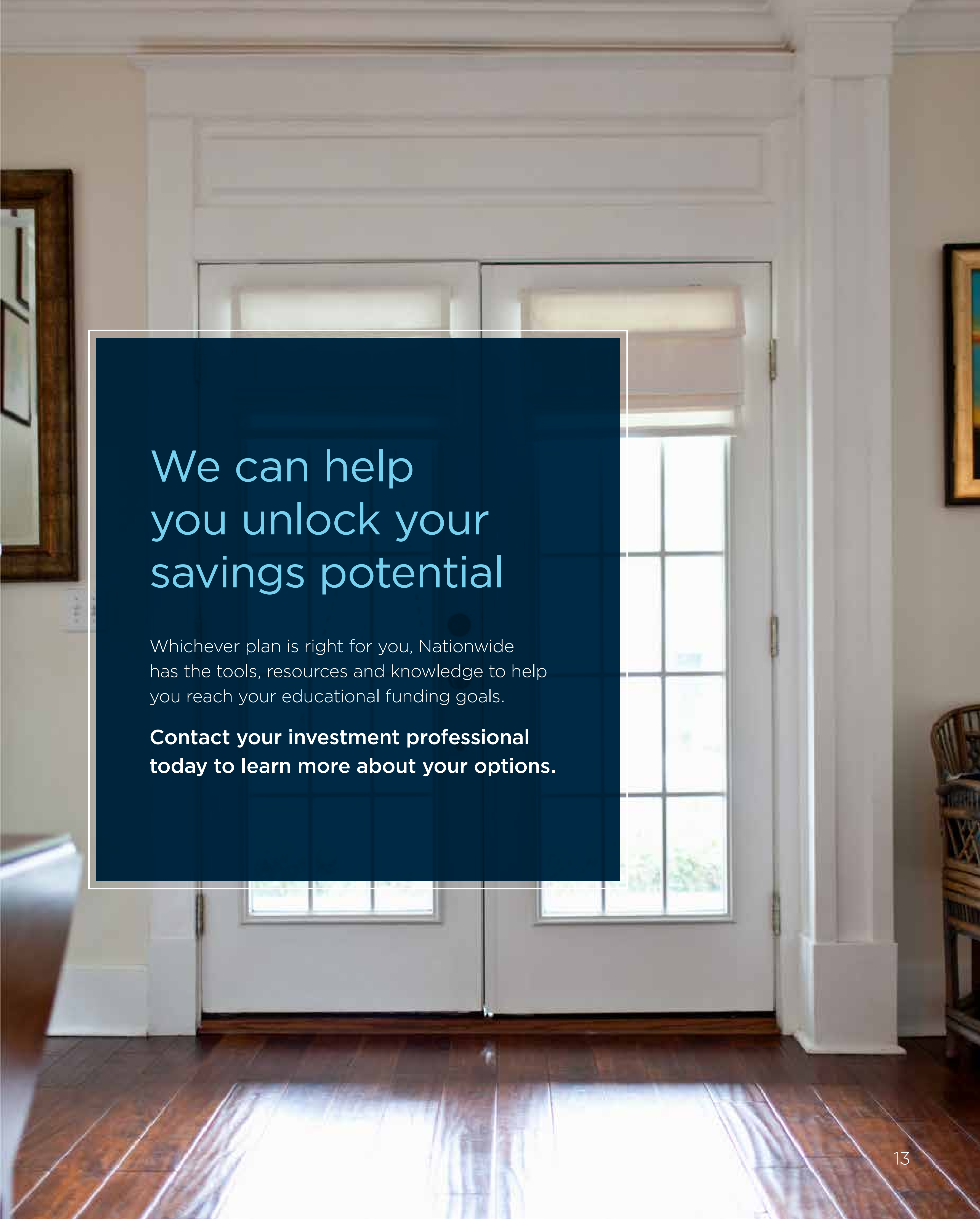
Tax-advantaged funding options aren't the only way to help make the most of your college funding resources. By starting early and regularly adding to your college funding account, you can put the power of compounding to work for you.

The benefits of starting early

This hypothetical illustration assumes a 6% rate of return compounded one time annually. Totals are rounded to the nearest dollar.



In this example, the parent of the 10-year-old would need to make monthly contributions of more than $595 to have the same amount saved at age 18 as the parent of the 5-year-old. So, don't delay — the sooner you start investing, the more opportunity you have to benefit from compound growth.



We can help you unlock your savings potential

Whichever plan is right for you, Nationwide has the tools, resources and knowledge to help you reach your educational funding goals.

Contact your investment professional today to learn more about your options.

• Not a deposit • Not FDIC or NCUSIF insured • Not guaranteed by the institution • Not insured by any federal government agency • May lose value

This material is not a recommendation to buy, sell, hold, or rollover any asset, adopt an investment strategy, retain a specific investment manager or use a particular account type. It does not take into account the specific investment objectives, tax and financial condition or particular needs of any specific person. Investors should work with their financial professional to discuss their specific situation.

For informational purposes only, does not constitute advice, and is not intended and should not be relied upon as an offer or recommendation with respect to the purchase or sale of any security. In addition, this report does not consider the specific investment objectives, financial situation and particular needs of any person.

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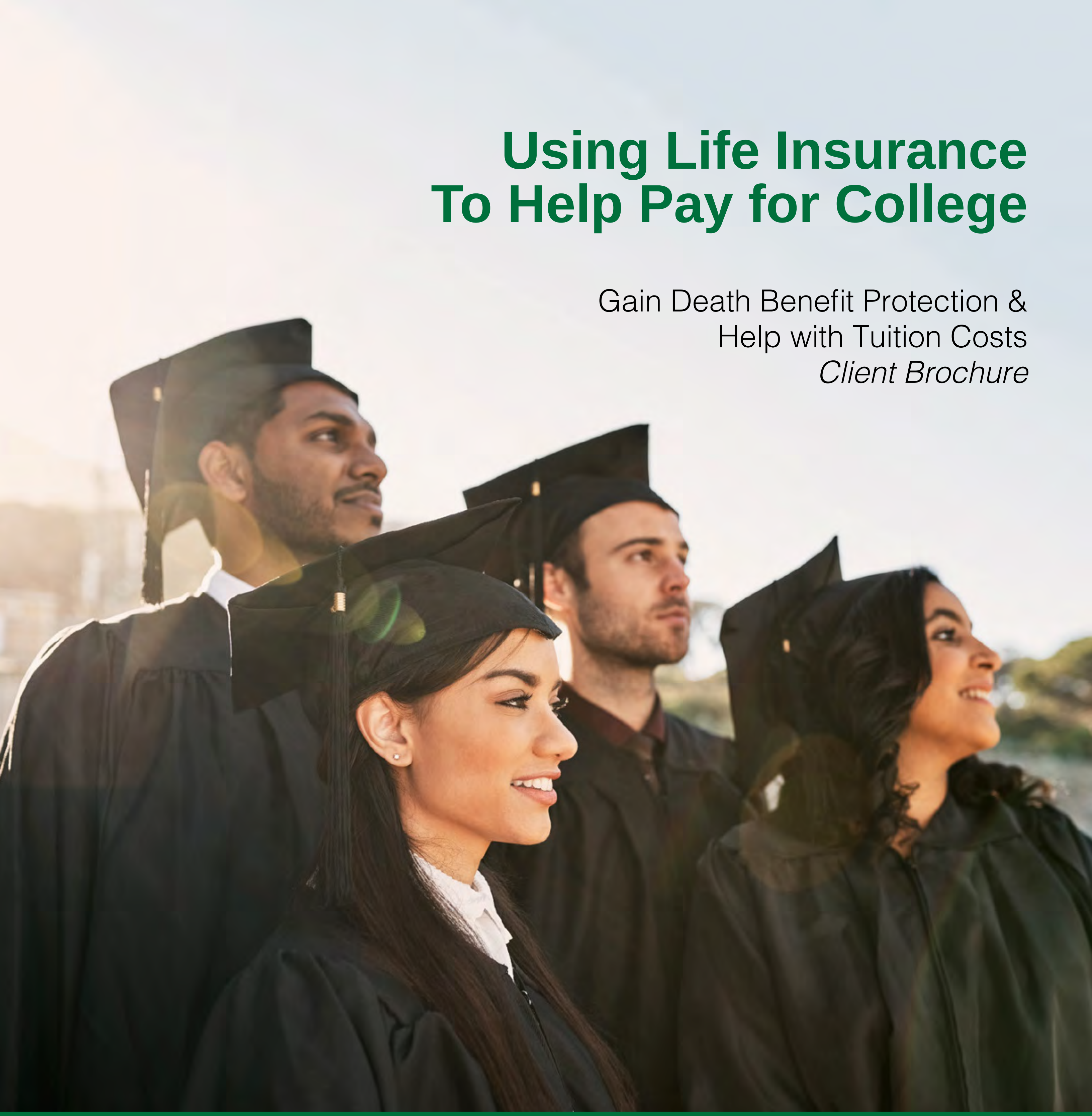
NFM-11387AO.3 (11/16)

Nationwide®



Using Life Insurance To Help Pay for College

Gain Death Benefit Protection &
Help with Tuition Costs
Client Brochure

North American Company
for Life and Health Insurance
Since 1886

Life

Achieve financial protection and help pay for the increasing costs of college tuition.

The primary purpose of life insurance is to provide a death benefit to beneficiaries. This death benefit protection can make life insurance an attractive choice to help fund a college education.

While many people are aware that the cost of a college education has been on the rise, many underestimate just how large this cost has grown. According to the 2016 Trends in College Pricing published by The College Board, over the past decade, the published in-state tuition and fees for four-year public colleges and universities grew at an average rate of 3.5% per year beyond the rate of inflation.* At the same time, many families lack life insurance protection, which many consider to be the cornerstone of financial protection. Recent studies show that four in ten U.S. households have no life insurance coverage at all,** which leaves them vulnerable should the primary breadwinner die unexpectedly. What many people may not realize is that with the right life insurance policy, you can secure needed death benefit protection while gaining a way to help pay for college education.

* Trends in College Pricing. © 2016 The College Board. www.collegeboard.com.

** Life Insurance and Market Research Association (LIMRA) 2016 Insurance Barometer Study.

KEY QUESTIONS	ITEMS DISCUSSED
Why life insurance?	Learn how life insurance can meet death benefit protection needs and help pay for college education.
Who can benefit?	Explore whether using life insurance to help fund college tuition costs is right for you.
How does it work?	Discover the steps to financially protect what's important while fulfilling the desire to help pay for college.

WHY LIFE INSURANCE?

Your personal savings should be the primary source for college funding.[1] However, that comes with a challenge: if the family's primary breadwinner dies prematurely, the personal savings plan typically comes to an abrupt end. In this situation, a life insurance policy can help. The policy's death benefit could be used to help pay college tuition costs.

A key benefit of permanent life insurance, is that it has the potential to accumulate cash value on a tax-deferred basis.[2] Those funds can then be accessed while you are living to help pay for college costs.

Some of the advantages of a permanent life insurance policy include:

- **Parental stewardship.** The policyowner has control of the policy's potential accumulated cash value. Should plans change, the accumulated cash value can be used for other purposes without tax consequences.[3]
- **Tax-deferred growth.** Cash values within a life insurance policy generally grow tax-deferred.[2]
- **Policy loan options.** Different loan options are available to help you access the potential cash values within your policy.[4]

WHO CAN BENEFIT?

There are a few items to consider before using life insurance for death benefit protection and a way to help pay for tuition costs:

- Are you in need of death benefit protection to help ensure your family is financially protected?
- Do you have a child or children up to 13 years old?
- Are you concerned about college tuition costs?

Life Insurance Considerations

It's important to explore your options and to work with your life insurance representative to gain a clear picture of your needs. There are costs with life insurance. Permanent life insurance policies require monthly deductions to pay the policy's charges and expenses, some of which will increase as you get older. These deductions may reduce the cash value of the policy. Additional premiums may be necessary to continue the desired death benefit, depending on funding. Withdrawals may be subject to surrender charges and the amount available for policy loans.

HOW DOES IT WORK?

After a thorough needs-based discussion with your life insurance representative, you select a life insurance policy that matches your needs. The basic steps typically include:

- Purchase a permanent life insurance policy. The policy provides death benefit protection and a way to help accumulate cash value on a tax-deferred basis.[2]
- If the unexpected happens and you die prematurely, the life insurance death benefit would be paid generally income tax-free[3] to beneficiaries.
- Alternatively, when it comes time for you to pay tuition costs, you may access the policy's potential cash values through generally tax-free loans or withdrawals.[4]
- After helping pay tuition costs, you may reposition the policy for other possible needs.

North American Company
for Life and Health Insurance
Since 1886

Get started today. Contact your North American representative and financially protect what's important now, while helping to fund a college education.

North American Company for Life and Health Insurance has been providing quality life insurance products since 1886. As one of the leading life insurance companies in the U.S., we'll make it as easy as possible for you to become one of our insureds. Please visit our Website at www.NorthAmericanCompany.com to find out more about our company.

1. The primary purpose of life insurance is to provide a death benefit to beneficiaries. Because of the uncertainty surrounding all funding options except savings, it is critical to make personal savings the cornerstone of your college funding program. However, even a well-conceived savings plan can be vulnerable. Should you die prematurely, your savings plan could come to an abrupt end.

To protect against this unexpected event, life insurance may be the only vehicle that can help assure the completion of a funding plan. In addition to the financial protection aspect of insurance, the tax-deferred buildup of cash values can be part of your college savings plan. Generally, if the policy is not a Modified Endowment Contract then tax-free withdrawals can be made up to the contract's cost basis. Moreover, if the policy is not a Modified Endowment Contract, then loans in excess of the cost basis are also tax free as long as the policy remains in force.

2. The tax-deferred feature of universal life or indexed universal life insurance is not necessary for a tax-qualified plan. In such instances, you should consider whether other features, such as the death benefit and optional riders make the policy appropriate for your needs. Before purchasing a policy, you should obtain competent tax advice both as to the tax treatment of the policy and the suitability of the product.

3. Neither North American Company nor its agents give legal or tax advice. Please consult with and rely on a qualified legal or tax advisor before entering into or paying additional premiums with respect to such arrangements.

4. Policy loans from life insurance policies generally are not subject to income tax, provided the contract is not a Modified Endowment Contract (MEC), as defined by Section 7702A of the Internal Revenue Code. A policy loan or withdrawal from a life insurance policy that is a MEC is taxable upon receipt to the extent cash value of the contract exceeds premium paid. Distributions from MECs are subject to federal income tax to the extent of the gain in the policy and taxable distributions are subject to a 10% additional tax prior to age 59½, with certain exceptions. Policy loans and withdrawals will reduce cash value and death benefit. Policy loans are subject to interest charges. Consult with and rely on your tax advisor or attorney on your specific situation. Income and growth on accumulated cash values is generally taxable only upon withdrawal. Adverse tax consequences may result if withdrawals exceed premiums paid into the policy. Withdrawals or surrenders made during a Surrender Charge period will be subject to surrender charges and may reduce the ultimate death benefit and cash value. Surrender charges vary by product, issue age, sex, underwriting class, and policy year. Income and growth on accumulated cash values is generally taxable only upon withdrawal. Adverse tax consequences may result if withdrawals exceed premiums paid into the policy. Withdrawals or surrenders made during a Surrender Charge period will be subject to surrender charges and may reduce the ultimate death benefit and cash value. Surrender charges vary by product, issue age, sex, underwriting class, and policy year.

Life insurance policies have terms under which the policy may be continued in force or discontinued. Permanent life insurance requires monthly deductions to pay the policy's charges and expenses, some of which will increase as the insured gets older. These deductions may reduce the cash value of the policy. Current cost of insurance rates and current interest rates are not guaranteed. Therefore, the planned periodic premium may not be sufficient to carry the contract to maturity. For costs and complete details, refer to the policy or call 877-872-0757 or write North American Company for Life and Health Insurance, One Sammons Plaza, Sioux Falls, SD, 57193.

UNDERSTANDING HOW MUCH YOU MAY NEED

Understanding how much you may need to invest in order to pay for your child's higher education is an important part of developing an effective education savings plan.

However, just as important is protecting your plan and its completion if you should die prematurely. One way to help protect your plan is with life insurance issued by Pruco Life Insurance Company. The death benefit amount can help cover your child's tuition if something unexpected happens to you.

Term Essential is issued by Pruco Life Insurance Company except in New York, where it is issued by Pruco Life Insurance Company of New Jersey. Both are Prudential Financial companies located in Newark, NJ. Each is solely responsible for its own financial condition and contractual obligations. The policy form number is PLTIC-2016 or ICC16 PLTIC-2016. Premiums increase annually after the level-premium period ends to age 95 but will never exceed the maximum stated in the contract.

Guarantees are based on the claims-paying ability of the issuing company.

Our policies and contracts contain exclusions, limitations, reductions of benefits, and terms for keeping them in force. A financial professional can provide you with costs and complete details.

HELP ENSURE FUNDS WILL BE THERE

Protecting Your Child's Education Plan

Life Insurance

Prudential
Bring Your Challenges®

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A QUICK SNAPSHOT

The following charts give a quick snapshot of various projected college tuition costs, the amounts needed to cover two children, and the annual amounts needed to protect tuition objectives with term insurance issued by Pruco Life Insurance Company.

To easily project college costs, we have assumed the same rate of inflation (5%) as your assumed after-tax investment return (5%).* Therefore, it does not matter when your children will attend college. The present value of their college costs is simply the sum of the current year's costs times the number of years they will each attend school. If you delay setting aside funds, the costs to protect their education plans will increase.

- Assuming current college costs for public in-state schools of $20,770, you would need $166,160 in insurance protection.[3]
- Assuming current college costs for public out-of-state schools of $36,420, you would need $291,360 in insurance protection.[3]
- Assuming current college costs for private schools of $46,950, you would need $375,600 in insurance protection.[3]

Setting aside funds now will decrease the amount of protection you will need to help cover education costs. Saving now is always better than saving later. A financial professional would be happy to help you calculate your specific projected college costs for the college or colleges of your choice.

*The rate of return is purely hypothetical and is used for illustration purposes only. The performance is not indicative of any particular investment. Actual results and investment risks will vary. Sales loads, sales charges, and administrative fees are not taken into account and would reduce the performance shown if they were.

LIFE INSURANCE HELPS YOU ENSURE THAT THE FUNDS FOR COLLEGE COSTS WILL BE THERE, EVEN IF YOU ARE NOT.

	NATIONAL ANNUAL COLLEGE COSTS[1]		
	PUBLIC IN-STATE	PUBLIC OUT-OF-STATE	PRIVATE
ANNUAL TUITION + COSTS	$20,770	$36,420	$46,950
YEARS IN SCHOOL	X 4	X 4	X 4
TOTAL TUITION	$83,080	$145,680	$187,800[2]
X 2 CHILDREN	X 2	X 2	X 2
APPROXIMATE AMOUNT OF PROTECTION NEEDED	**$166,160[3]**	**$291,360[3]**	**$375,600[3]**

		ANNUAL LIFE INSURANCE EXPENSE		
PROTECTION NEEDED		**$166,160**	**$291.360**	**$375,600**
AGE 25	10 YEARS	$206.30	$233.59	$276.56
	15 YEARS	$214.60	$236.51	$280.31
	20 YEARS	$222.91	$239.42	$284.07
	30 YEARS	$264.45	$256.90	$306.60
AGE 35	10 YEARS	$207.96	$242.33	$287.82
	15 YEARS	$219.59	$256.90	$306.60
	20 YEARS	$237,87	$262.73	$314.12
AGE 45	10 YEARS	$277.75	$297.69	$359.19
	15 YEARS	$289.38	$303.52	$366.70

1 Trends in College Pricing 2017-18. http://trends.collegeboard.org/college-pricing/figures-tables/average-published-undergraduate-charges-sector-2017-18.

2 Costs include resident tuition, room and board, and fees.

3 The annual amounts for "Protection Needed" are based upon Term Essential® (10), Term Essential® (15), Term Essential® (20), and Term Essential® (30) term life insurance policies, respectively, for death benefit amounts that match the average four-year tuition costs. The amounts are then rounded to a common face amount for ease of use. The rates are for a male, non-smoker, in the "Preferred Best" underwriting category, which is not guaranteed, and with no riders. Availability and actual rates will vary based on how you satisfy our underwriting and eligibility criteria. The issuer may have the right to contest the policy for misrepresentation or to apply a suicide clause. The minimum amount of protection for these types of policies is $100,000. A complete analysis done by your financial professional may determine other needs and objectives that you may want to protect through the use of life insurance. Rates and availability may vary by state. Rates are as of 02/2018.

CLIENT STRATEGIES

Protecting a Child's Future – Term Solution

PROTECTING THEIR CHILD'S FUTURE

When your clients are planning for their child's or children's future, they should consider taking a first step to protect it with life insurance.

This case study shows how a term life insurance policy can help keep dreams for a child's or children's future alive.

CASE STUDY

Evan, 28, is a retail salesman and Alyson, 27, is a marketing manager. They have been married 3 years, own a house, and just had their first child, Amanda.

THE CURRENT SITUATION

- Evan and Alyson are new parents and are excited about raising their daughter in their home.
- They have an affordable, $300,000, 30-year mortgage on their home and love that they will be raising Amanda in their hometown.
- They have dreams and plans for Amanda to play sports as she grows and maybe even attend their alma mater, where they met.
- They have been told that they should have life insurance other than what they get through their jobs to protect Amanda's future as well as their home.

THE CHALLENGE

- Need to replace the income of the deceased spouse for a period of time to pay final expenses, outstanding debt, and other lifestyle expenses that would continue.
- Premature death of Evan or Alyson could be catastrophic financially. It could be extremely difficult for one of them to maintain the mortgage without the second salary and their hopes of raising Amanda in their hometown and attending college could be threatened.
- Make sure that all of their debts are paid should one of them die prematurely, and that the other has enough to afford to stay in their home and give Amanda a college education.

CLARIFYING THEIR GOALS

Evan and Alyson sit down with their Financial Professional to clarify their goals and examine options that can:

- Provide individual life insurance protection in case one of them dies unexpectedly.
- Replace the deceased spouse's income for a period of time.
- Ensure there are funds that can be used to pay their debts, including the mortgage, if one of them dies.
- Ensure there's enough money for Amanda to get a college education.

See next page for the strategy using term life insurance.

Prudential
Bring Your Challenges®

THE STRATEGY USING TERM LIFE INSURANCE

After a needs analysis and careful consideration, their Financial Professional recommended a basic term life insurance policy at this stage in their lives to help meet their goals. The recommendation was made that they each purchase a $500,000, 20-year term life insurance policy that will provide funds that can be used to cover the mortgage and other debt, and protect their dreams for Amanda, should they need it before she is out of college.

Here's how their goals can be met using term life insurance:

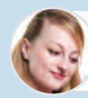
Provide individual life insurance protection in case one of them dies unexpectedly.

The policy should be large enough to pay final expenses, replace the lost income until the child reaches the age of 18, allow the beneficiary to pay the mortgage and any outstanding debt, and have a lump sum to cover the expense of college.

The cost of raising a child from birth to age 17 is estimated at around $233,000[1] and the average cost of a 4-year private college is approximately $203,600.[2] These numbers may seem daunting, but are very real. Add to these numbers the outstanding mortgage and the clients may need quite a hefty sum. This is why affordable term insurance can be a great starting point for new parents in this situation.

AFFORDABLE TERM IN THIS CASE:


Evan
$37.63/Month


Alyson
$30.63/Month

Evan and Alyson are assumed to be in good health with a Preferred Best rating.

At their young ages, these Term Essential 20 rates (that include waiver of premium rider) are some of the lowest available.

Payment modes other than annual will result in higher aggregate premiums. The availability of coverage and rates will vary based on company underwriting criteria including but not limited to age, sex, health history, smoking status, and residency.

The term policies can be converted to permanent in the future.

If they buy term policies with conversion options, if their financial situation changes, they have the option to convert to permanent life insurance.

[1]Lino, M., Kuczynski, K., Rodriguez, N., and Schap, T. (2017). Expenditures on Children by Families, 2015. Miscellaneous Publication No. 1528-2015. U.S. Department of Agriculture, Center for Nutrition Policy and Promotion.

[2]College costs assume the child attends a private non-profit school (average total cost per year of $50,900 nationally for 2017–2018). (4yrs x $50,900/yr = $203,600, excluding inflation). This cost includes resident tuition, room and board, books, supplies, transportation, and other expenses. Source: The College Board, "Trends in College Pricing, 2017–2018," Figure 1.

1 REVIEW CLIENTS & PROSPECTS

2 SET UP AN APPOINTMENT

3 PREPARE FOR THE MEETING

4 CONDUCT THE CLIENT APPOINTMENT

5 SCHEDULE A FOLLOW-UP

6 FOLLOW UP

ACTION PLAN FOR SUCCESS

A successful approach with this marketing concept is to focus on 10 clients at a time, following each of the steps below. Once you finish all of the steps with those clients, select 10 more and continue building your business.

1. Review your client and prospecting lists for potential candidates.
2. Once you have identified a potential prospect, set up an appointment to discuss their protection needs.
3. Prepare for the meeting with appropriate marketing materials and illustrations.
4. At the appointment, walk clients through the material to help pinpoint their needs.
5. Schedule a follow-up meeting to present strategies to address the challenges identified.
6. Be sure to follow up after these meetings for applications, questions, or additional discussion.

Your Prudential Life Wholesaler can walk you through term life insurance consumer material and discuss how to present it to your clients.

Term Essential is issued by Pruco Life Insurance Company in all states except New York, where it is issued by Pruco Life Insurance Company of New Jersey; both are Prudential Financial companies located in Newark, NJ.

NOT FOR CONSUMER USE.

LIFE INSURANCE

Is a Million Dollars Enough?

It's easy to think that having a million dollars will take care of your financial needs forever.

But if you leave $1 million to your family in the form of a life insurance policy's death benefit, how long will it really last? Let's take a look.

HOW LIFE INSURANCE CAN HELP

Life insurance can help protect your family or business by providing a death benefit (a sum of money) if you should die prematurely. Your beneficiary receives these proceeds generally free of federal income tax (IRC §101(a)) to help replace some of the income you would have earned. In this way, the death benefit can help to:

- Maintain your family's standard of living.
- Protect your family's home by helping them pay off the mortgage and other debts.
- Safeguard your child's future college funds.
- Provide supplemental retirement income for your spouse or partner.
- Provide funds to pay estate taxes and other final expenses.
- Keep your business in the family.

IS $1 MILLION ENOUGH?

You may be surprised to find out that your need for life insurance may be as much as or even greater than $1 million. Of course, everyone's needs are different, and a complete needs analysis is the best way to determine the amount of life insurance that's right for you.

Taking a closer look at the numbers—what you earn and how the death benefit would be used—can also help put things into perspective.

If, for example, you earn $40,000 a year for 25 years and never get an increase in pay, you will have earned $1,000,000. Although we are not taking into account inflation, years actually worked, and actual salary, this simplified calculation can help you realize just how much you earn over time.

LET'S LOOK AT A QUICK CASE STUDY

You have a **$200,000 mortgage**.
You have **two children**, ages 2 and 4.
Both you and your spouse work and each **earn $60,000** per year.
Your goals: • to provide for your children's education. • to enable your family to be able to pay off all final expenses and debt. • to allow your family's standard of living to remain the same. • to enable your spouse to retire comfortably.

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Will $1 million be enough to meet your objectives?

WHERE THE MONEY GOES

Let's see how far $1 million will go to help your loved ones if you pass away.

Death Benefit	$1,000,000
Mortgage	–$200,000
	= **$800,000**
College Costs[1]	–$394,560
	= **$405,440**
Funeral Costs (funeral, debt, etc.)	–$10,000
	= **$395,440**
Rate of Return (5%)	X .05[2]
Annual Income Stream Remaining	= **$19,772**[3]

$19,772 replaces less than 33% of the missing pre-tax income with no adjustment for inflation. What if your family has debt not reflected here? How well will your family live on a paycheck with no inflation adjustment?

HOW LONG WILL THE LUMP SUM OF $395,440 LAST WITH INFLATION?

If you would like to maintain your annual pre-tax income of $60,000 and, assuming a 3% inflation rate and an annual investment rate of 5% (after taxes), the lump sum of $395,440 (after paying off the costs shown in the case study) will last approximately 6.9 years.

Maybe it is time to consider supplementing your existing coverage with additional term policies. Did you know that both you and your spouse may be able to purchase a $1,000,000 term policy from Pruco Life Insurance Company for less than $81 per month?[4]

HOW FAR WOULD A MILLION DOLLARS GO FOR YOUR FAMILY?

Get a personalized estimate to find out. A financial professional can complete a needs analysis for you to help determine how much insurance you may need. He or she can also help you find the right life insurance policy appropriate for your needs and budget.

[1] College costs assume both children attend a private non-profit school (average total cost per year of $49,320 nationally for 2016 – 2017). (2 children x 4yrs x $49,320/yr = $394,560, excluding inflation). This cost includes resident tuition, room and board, books, supplies, transportation, and other expenses. Source: The College Board, "Trends in College Pricing, 2016 – 2017," Figure 1.
[2] A hypothetical rate of return.
[3] The Annual Income Stream Remaining is a before-tax annual amount.
[4] This example refers to monthly rates for a $1,000,000 Term Essential® 30 policy or PruTerm WorkLife 65℠, based on our Preferred Best underwriting category for a 30-year-old male and female. If you choose to keep the policy after the level premium period ends, premiums will increase each year as outlined in your contract. Payment modes other than annual will result in higher aggregate premiums.

It is important to understand that the amounts represented here are hypothetical. Actual results may vary substantially from the figures shown. The only conclusions that should be drawn from this brochure are that additional analysis may be appropriate and that a personal needs analysis can help identify the size of your life insurance needs.

Life insurance policies contain exclusions, limitations, reductions of benefits, and terms for keeping them in force. For costs and complete details, see your financial professional. The issuer may have the right to contest the policy for misrepresentation or to apply a suicide clause.

Term Essential (PLTIC-2016 or ICC16-PLTIC-2016) is issued by Pruco Life Insurance Company except in New York, where it is issued by Pruco Life Insurance Company of New Jersey. PruTerm WorkLife 65 (PLTUB-2011) is issued by Pruco Life Insurance Company, Newark, NJ, except in New York, where it is currently unavailable. This product is not available in all states. Other insurance policies are issued by The Prudential Insurance Company of America and its affiliates. All are Prudential Financial companies located in Newark, NJ. Each is solely responsible for its own financial condition and contractual obligations.

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Investment and Insurance Products:
Not Insured by FDIC, NCUSIF, or Any Federal Government Agency. May Lose Value. Not a Deposit of or Guaranteed by Any Bank, Credit Union, Bank Affiliate, or Credit Union Affiliate.

FOUR TRENDS MAKING BUDGETING MORE IMPORTANT THAN EVER

Budgeting Is Key to Financial Wellness

Financial wellness is realized by adopting behaviors that help achieve the foundational elements of financial security: managing day-to-day finances, achieving important financial goals, and protecting against major financial risks.[1] Of the three elements, managing day-to-day finances is key, because it underpins the other two elements — by managing day-to-day finances, individuals are more likely to be able to have the resources to achieve important financial goals and protect against financial risks.

Managing day-to-day finances involves budgeting and reducing debt levels. Budgeting is especially important for younger adults, because it can help them establish a mindset and discipline that can last a lifetime. In addition, budgeting can help younger adults to start saving early, which makes a significant impact on outcomes. Conversely, the absence of good budgeting in the early working years may lead to financial shortfalls that can derail individuals' ability to save adequately for retirement and protect themselves against unexpected life events.

Only about one-third (32%) of American households keep a detailed budget[2]; however, the state of personal finances today indicates that most individuals need help with budgeting. Over 60% of Americans don't have a "rainy day fund" with enough savings to cover a $500 emergency[3] — roughly equivalent to the cost to replace a broken washing machine. Prudential's research indicates that one-quarter (25%) of employees spend their full paycheck — or even more — each month.[4] More than half of surveyed pre-retirees recognize that saving for retirement is getting progressively harder for each generation, and expect to have a more difficult time than their parents or grandparents did.[5]

This paper explores trends that are making budgeting increasingly important: a proliferation of social media, an increasingly cashless society, a shift in employment, and outsized expenses. Together, these trends result in increased spending, more volatile income, additional financial responsibilities for individuals, rapidly increasing expenses, and lower returns on investments. As long-standing providers of employee benefits, employers are well positioned to help employees overcome these budgeting challenges and achieve financial wellness.

"We must consult our means rather than our wishes."

– George Washington

"Beware of little expenses: a small leak can sink a great ship."

– Benjamin Franklin

Current Trends That Make Budgeting Increasingly Important

Four Trends Are Increasing the Importance of Budgeting

Four trends challenge individuals to stretch a given level of income to cover increasing demands, making budgeting increasingly important today.

1 Social media is increasing consumer spending

Social media is increasing consumer spending due to customized marketing campaigns as well as the subtle influence of peers' social posts.

According to Gallup, 30% of surveyed consumers say social media has some influence on their purchasing decisions, and another 5% say it has a great deal of influence. For Millennials, these percentages are 43% and 7%, respectively — indicating that half of Millennials are influenced by social media on purchases.[6]

A Deloitte consumer survey indicates that 47% of all Millennial consumers use social media during their shopping journey, compared to 19% of non-Millennials. Those who use social media during their shopping process are about four times more likely than non-users to spend more than they originally planned on purchases.[7] One explanation may be that data-driven digital marketing techniques enable advertisers to target ads to individuals with more precision, increasing the likelihood of success. Partially offsetting this incremental spend is that social media may help individuals save money by finding the best price on items.[8] For example, "liking" a store or brand will keep individuals notified of coupons and deals.[9]

Social media also influences spending in subtle ways through peer pressure. Friends often happily share photos of their new house, luxury vacation, new hobby, or meal from a new restaurant. Individuals may see an onslaught of posts showing the good fortunes of friends — even those "friends" they barely know or have not seen in years. Individuals may feel tempted to keep up with others, even if they can't afford it.[10] A study found that individuals who spent relatively long periods of time on social media and had strong online social networks were likely to have lower credit scores and more credit card debt than those who used social media less frequently and had weaker networks.[11]

2 An increasingly cashless society increases consumer spending

An increasingly cashless society increases consumer spending by creating a psychological disconnect between purchases and the physical drawdown of money.

When using cash to pay for items, individuals experience a physical cost. They also have a tangible way to track how much they have spent — that is, how much is left in their wallet, which directly impacts the amount available to spend on the next cash transaction. With credit cards, individuals do not have to think about the direct impact that a purchase has on the cash available for the next purchase, or think about payment until the next month — making it a challenge to monitor actual versus budgeted spending levels.

Academic research supports this notion, indicating that individuals are willing to spend more when they use a credit card than when using cash, and suggesting the underlying reason is partly due to the way cash can reinforce the pain of paying.[12] An MIT study, published in 2001, indicates that, in certain contexts, people were even willing to pay up to twice as much for the same item when paying with a credit card instead of cash.[13] The authors of the study also cite research indicating that: individuals who own more credit cards make larger purchases per department store visit, restaurant tips are larger when payment is by card, and credit card users are more likely to underestimate or forget the amount spent on recent purchases.

Credit cards enable individuals to spend more for non-discretionary items, too. In 2016, twenty-six percent of employees used credit cards for monthly necessities they could not afford otherwise, up from 22% in 2013.[14] Surprisingly, this did not vary significantly across income levels (31% for employees earning under $30,000 vs. 22% for those earning over $100,000) or generation (30% for Millennials vs. 27% for Gen Xers, and 21% for Boomers).[15]

Social media influences may lead to increased spending; setting a budget may help to keep those influences in check.

The growing trend in mobile payments may further disconnect a purchase from a physical drawdown of money. Forrester forecasts that overall mobile payments will grow at a 20.3% compound annual growth rate from 2016 to 2021.[16]

- The proliferation of new payment methods, such as Venmo and Apple Pay, may increase the number of payment methods that an individual uses, making it even more difficult to track the total amount spent. Mobile payments further steer individuals from using cash; for example, now individuals can use Venmo to reimburse their friends for their portion of a shared restaurant bill.

- Mobile technology provides the opportunity for marketers to provide a valued customer experience. Starbucks links its mobile payment app with a store locator, reward program, and any specials. Consumers can even order drinks for pickup.[17] This integrated approach and seamless customer experience facilitates purchases.

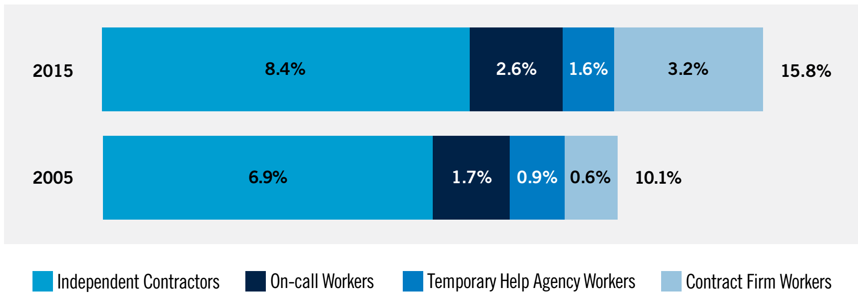
Individuals should avoid "spending creep" with noncash payments by closely monitoring their spending vis-à-vis their budgeted spending allocations.

3 Income is becoming more volatile, as employment is shifting from traditional full-time employment to alternative work arrangements and frequent job switching, creating budgeting challenges of self-funding benefits and retirement savings and living with irregular income.

Alternative work arrangements include temporary and part-time work, as well as contractual arrangements, such as independent contractors. While there are many definitions of the alternative workforce and estimates of its size, one estimate reports these arrangements comprised 16% of the workforce in 2015, up from 10% in 2005.[18]

Google's parent, Alphabet, is a notable example of the contractor model. Sources estimate that Alphabet has about as many outsourced workers as full-time employees.[19] Contractors, vendors, and temps perform a range of important functions — from testing self-driving cars to managing marketing and data projects.[20]

Alternative Work Arrangements (percentage of all workers)



Source: Lawrence Katz and Alan Krueger, "The Rise and Nature of Alternative Work Arrangements in the United States, 1995-2015," 2016.

While the contractor model may provide more flexibility for many employers and workers, it has a downside for the workers' pay, benefits, and job security. Individuals with alternative work arrangements may have irregular incomes which make it difficult to save systematically and manage a budget. They may not have access to employer-sponsored retirement benefits and employer matching contributions, as well as benefits that help protect against key financial risks, such as premature death, disability, and critical illnesses. In addition, alternative workers may not be eligible for paid vacation or health insurance.

This reduced access to benefits and retirement plans reinforces a trend well underway in which financial responsibilities and risks shift from employers to employees, leaving employees burdened with funding a greater portion of healthcare and retirement costs. This shift, compounded by the fact that longevity is increasing, is driving retirement costs up at a time when it is especially difficult to grow a retirement nest egg due to the impact of historically low interest rates on investment returns.

Even employees who have traditional employment arrangements are now changing jobs more frequently, and may be subject to employment actions, such as downsizing. In a survey of retirees, about half (51%) retired earlier than planned. Thirty percent of those who retired earlier than planned were laid off from their jobs or offered an early retirement incentive package. Of the retirees who retired earlier, half (50%) retired five or more years earlier than expected.[21] For many, this significant loss of income means fewer years to accumulate savings, and more years of retirement to fund.

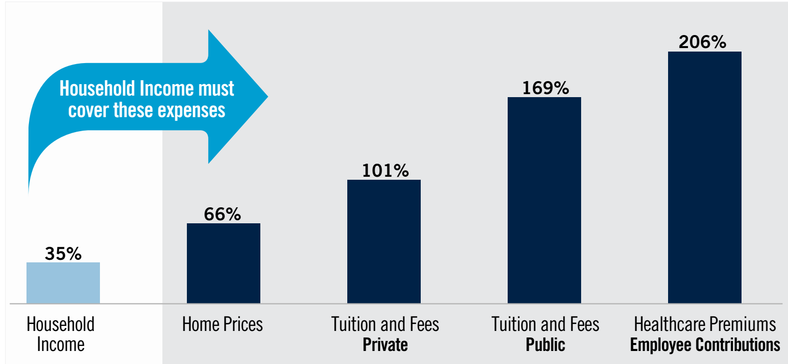
Frequent job switching increases the likelihood that employees may leave money on the table when leaving an employer — some employees leave at the wrong time of year and miss out on year-end employer contributions. Others may leave before they are fully vested in a plan and lose part or all their employer contributions.[22] The median amount of time Americans spend at one job was 4.2 years in 2016, down from 4.6 years in 2014.[23]

Given new employment models, individuals may need to adjust their budgets to account for having to self-fund their benefits and retirement savings, and living with less stability of income, job security, and control over retirement age.

4 Outsized big-ticket items are growing faster than income, including home purchase prices and college costs, leading many individuals to assume more debt and reducing their discretionary income.

As shown in the bar chart, major expense categories have increased faster than wages from 2000 to 2015, creating more demands on each dollar of income.

Growth in Household Income and Major Expenses 2000 – 2015



Sources: Federal Reserve Bank of St. Louis, College Board, Kaiser Family Foundation.

A home is likely one of the biggest purchases an individual makes. From 2000 to 2015, the national median home price increased 66%,[24] versus a 35% increase in median household income.[25]

Levels of student debt are ballooning, placing a higher burden on individuals, especially Millennials, than ever before. College costs have risen faster than household income. From 2000 to 2015, tuition and fees increased 101% for private colleges and 169% for public colleges.[26]

As a result, the use of student loans to pay for college has grown substantially. Seventy-one percent of the class of 2015 graduated with student loan debt, as compared to 54% of graduates 20 years earlier. Meanwhile, the average amount borrowed more than tripled over the same period, from an average debt amount of $11,491 in 1995 to $35,051 in 2015.[27]

Individuals may have to allocate a larger portion of their income to cover fast-growing costs of housing and tuition, often in the form of debt.

Employers Can Help Employees Cope with Today's Budgeting Challenges

The trends explored in this paper are increasing the importance of budgeting, which is a key component of managing day-to-day finances — the first step toward improving financial wellness. As a result, employees need more help than ever in achieving financial wellness.

Although the employment model is shifting, employers remain long-standing providers of employee benefits, and are generally viewed by employees as trusted partners who can help them achieve financial wellness. Employers should consider providing financial wellness education and programs that help employees manage day-to-day finances, achieve key financial goals, and prepare for the unexpected. Improving employees' financial wellness helps to reduce their stress and distractions and, thereby, also benefits employers by contributing to increased workplace productivity and workforce cost management.

To help employees proactively make informed decisions to manage their day-to-day finances, employers may consider offering:

- Onsite or digital financial wellness education and counseling, to help employees adopt good financial behaviors that become part of their lifestyles.

- Budgeting tools, in which employees create a personalized budget that is relevant to them and tracks their progress. Technology can play an important role in budgeting tools by aggregating the information necessary to provide a holistic view of an employee's financial life. As a starting point, employers already have foundational data at their fingertips, such as compensation levels, savings and insurance plans, and health savings accounts. Budgeting tools may allow employees to automatically import their external data from bank and other financial accounts and combine it with data supplied by their employers, so that they can view their account balances and transaction history in one place. This account aggregation makes it easier to identify areas of improvement and facilitate decision making that drives meaningful changes in financial behavior.

- Financial wellness self-assessment tools, so that employees have a clear picture of their financial strengths and gaps. In addition, employers may leverage the insights and data that these tools generate to understand the financial needs of their employee base, and customize a suite of benefits and education to best meet their needs.

- Financial solutions that encourage employees to save systematically. These include student loan debt repayment programs to help employees pay down their debt, and defined contribution (DC) plans with automatic enrollment, automatic escalation of employees' contribution levels over time, and employer matching contributions. One way to help partially offset the increased need to save is through guaranteed lifetime income products, which help to reduce the level of DC plan savings that employees need to generate their desired level of retirement income. Prudential's research estimates that incorporating guaranteed lifetime income products into a DC plan reduces the level of assets required for a typical participant to retire at age 65 by 36%.[28]

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