



Seminar Series – Part 2 For The Long Haul: Building Your Road to Retirement

What You'll Learn Today

- The importance of developing a retirement strategy
- Ways to avoid potential roadblocks to financial wellness in retirement
- Income in retirement
- Social Security retirement benefits



Here's the Retirement Reality

Percentage of households at risk of not having enough money to maintain their living standards in retirement*

50%

* The National Retirement Risk Index – March 2020

Assume an Extended Retirement

- You'll potentially need income for 25+ years post retirement
- A 65-year-old man can expect to live, on average, until age 84
- A 65-year-old woman until age 86.5
- About one out of every three 65-year-olds today will live past age 90
- One in seven will live past age 95

<https://ssa.gov/planners/lifeexpectancy.html>, April 1, 2020.

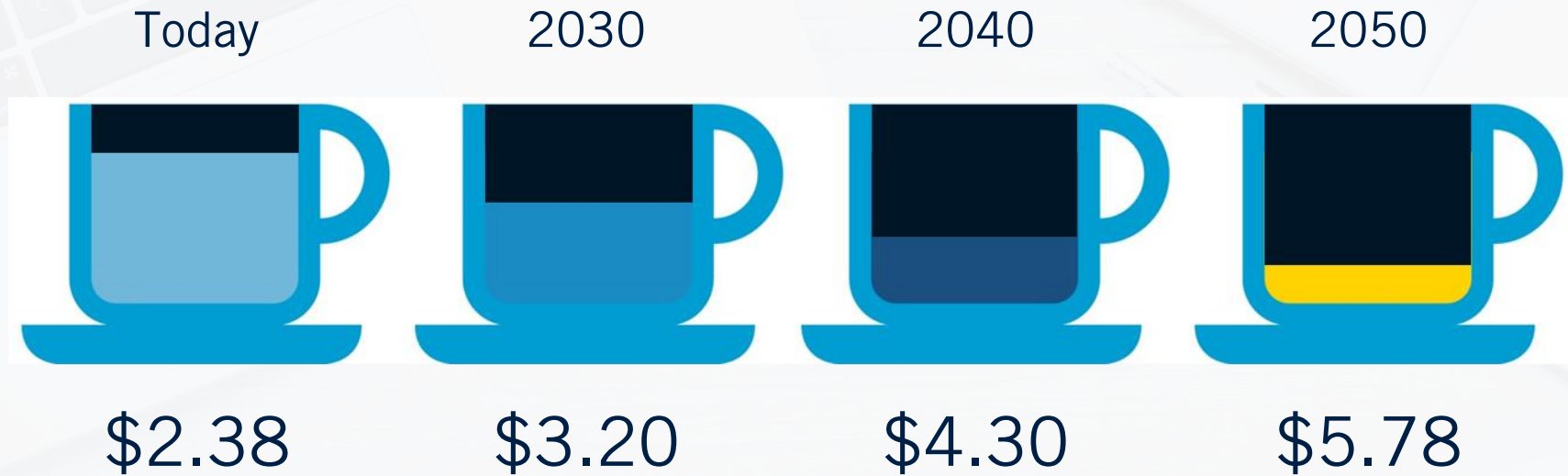




**[www.preparewithpru.com/
shared/content/retirement-
plan-savings-calculator.php](http://www.preparewithpru.com/shared/content/retirement-plan-savings-calculator.php)**

Account for Inflation

Inflation can impact the power of your retirement savings and cause one to outlive their savings.



3.5% Annual Inflation Rate

For illustrative purposes only. Assume a 3.5% annual inflation rate and that the average price for a brewed coffee is \$2.38 in 2020.

Rising Medical Expenses

A 65-year-old couple retiring today could expect to pay \$285,000* in out-of-pocket healthcare expenses.

*2019 Fidelity Retiree Health Care Cost Estimate. Based on a hypothetical couple retiring in 2019, 65-years-old, with life expectancies that align with Society of Actuaries' RP-2014 Healthy Annuitant rates with Mortality Improvements Scale MP-2016. Actual assets needed may be more or less depending on actual health status, area of residence, and longevity. Estimate is net of taxes.



Taxes



Cash Flow Worksheets

Is there a gap in your cash flow?

Now that you have considered those questions, the next step is to calculate your retirement income needs and determine if you have a retirement income gap. (If determining income gap for a couple, please use combined figures.)

STEP 1

DO YOU HAVE A RETIREMENT INCOME GOAL?

Have you determined how much annual income you will need in retirement? (Many experts suggest 80% to 90% of pre-retirement income as a guide.)

1.

Enter the annual income amount you'll need in retirement above.

STEP 2

WHAT SOURCES OF INCOME WILL YOU HAVE IN RETIREMENT?

A. Are you entitled to a pension at retirement?

- Do you understand your pension and distribution options at retirement and how they can affect your overall retirement income plan?
- How much do you anticipate receiving?

2A.

Enter your annual pension amount above. If you don't have a pension, enter 0.

+

B. How much will you receive from Social Security?

For your specific situation, refer to your Social Security statements, or to www.ssa.gov to download your most recent benefit statement.

2B.

Enter your annual Social Security benefit amount above.

+

C. What is your estimated income from other guaranteed sources? (For example, annuities)

2C.

Enter your estimated income from other guaranteed sources above.

+

D. What is your estimated income from other non-guaranteed sources?

A common rule of thumb is that a 4.0% distribution rate from investments is sustainable. What is your sustainable income?

Assets _____ x 4.0% = Income from non-guaranteed sources (For example, mutual funds, stocks, bonds, retirement plans, etc.)

2D.

Enter your estimated income from non-guaranteed sources above.

=

2E.

Sum 2A, 2B, 2C, and 2D. This is your total anticipated income in retirement.

TOTAL: This is your total anticipated income in retirement

STEP 3

WHAT IS YOUR INCOME GAP?

3.

Subtract the total anticipated income from Step 2E from your target income from Step 1.

What are the potential threats to your retirement income?

Next step is to help you determine how taxes, expenses, and other reductions may increase your cash flow gap.

STEP 4

WHAT WILL YOU PAY IN TAXES?

Use the table below to find the estimated tax on your retirement income. You should consult your own independent tax advisor for information that is specific to your situation.

	MINIMUM INCOME	AVERAGE FEDERAL TAX RATE
Less 1%	\$515,371	21.0%
Less 5%	\$708,053	23.7%
Less 10%	\$146,326	21.5%
Less 25%	\$63,687	18.7%
Less 50%	\$41,740	16.0%

Average effective tax rate for 2017 (based year for available data). Source: Tax Foundation <https://taxfoundation.org/burden-of-the-federal-income-tax-data-2017-update/>

Use the table to enter the estimated tax on your retirement income.

This is your new income gap

4A.
Please enter your estimated federal tax rate above.

4B.

Multiply your anticipated retirement income from Step 1 by your estimated federal tax rate in 4A.

+

Enter your income gap from Step 3 above.

=

4C.
Net 4B and 4C.

STEP 5

REDUCTION TO SOCIAL SECURITY BENEFITS?

- When do you reach your "Full Retirement Age" (FRA) for Social Security benefits?
- Have you and your financial professional discussed the effect of taking benefits at different ages?

If you take Social Security benefits before your Full Retirement Age, you need to reduce your anticipated Social Security payment. Check the table below, and enter the appropriate reduction here.

AGE	FRA 66	FRA 67
62	25% reduction	30% reduction
63	20% reduction	25% reduction
64	13.3% reduction	20% reduction
65	6.7% reduction	13.3% reduction
66	0% reduction	6.7% reduction
67	N/A	0% reduction

If you do not know your Full Retirement Age, please visit www.ssa.gov.

This is your new income gap

5A.

Enter the appropriate percentage reduction from the table.

5B.

Multiply your Social Security benefit from Step 2B by the appropriate reduction factor in 5A. Enter the result above.

+

5C.

Enter your income gap from Step 4C above.

=

5D.
Net 5B and 5C.

What to Tap First?






➔ Required Minimum Distributions (RMDs)

- Beginning at age 72
- 50% penalty of RMD shortfall
- RMDs and sustainable withdrawals
- Aggregation rules



**[http://preparewithpru.com/shared/
content/rmd-calculator.php](http://preparewithpru.com/shared/content/rmd-calculator.php)**



Where will your money in retirement come from?

- Social Security retirement benefits
- Part-time job
- IRA
- Roth IRA
- Company-sponsored retirement plan
- Pension
- Cash value from life insurance
- Annuities
- Savings
- Inheritance



Explore
www.ssa.gov

Social Security: Full Retirement Age

Date of Birth	Full Retirement Age
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

www.ssa.gov as of December 2021

The Impact of Taking Social Security Early

Age	Full Retirement Age 66
62	25% reduction
63	20% reduction
64	13.3% reduction
65	6.7% reduction
66	full benefits

Benefits at age 62: \$18,000/yr

- Lives to age 92: \$900,048 lifetime total

Benefits at age 66: \$24,000/yr

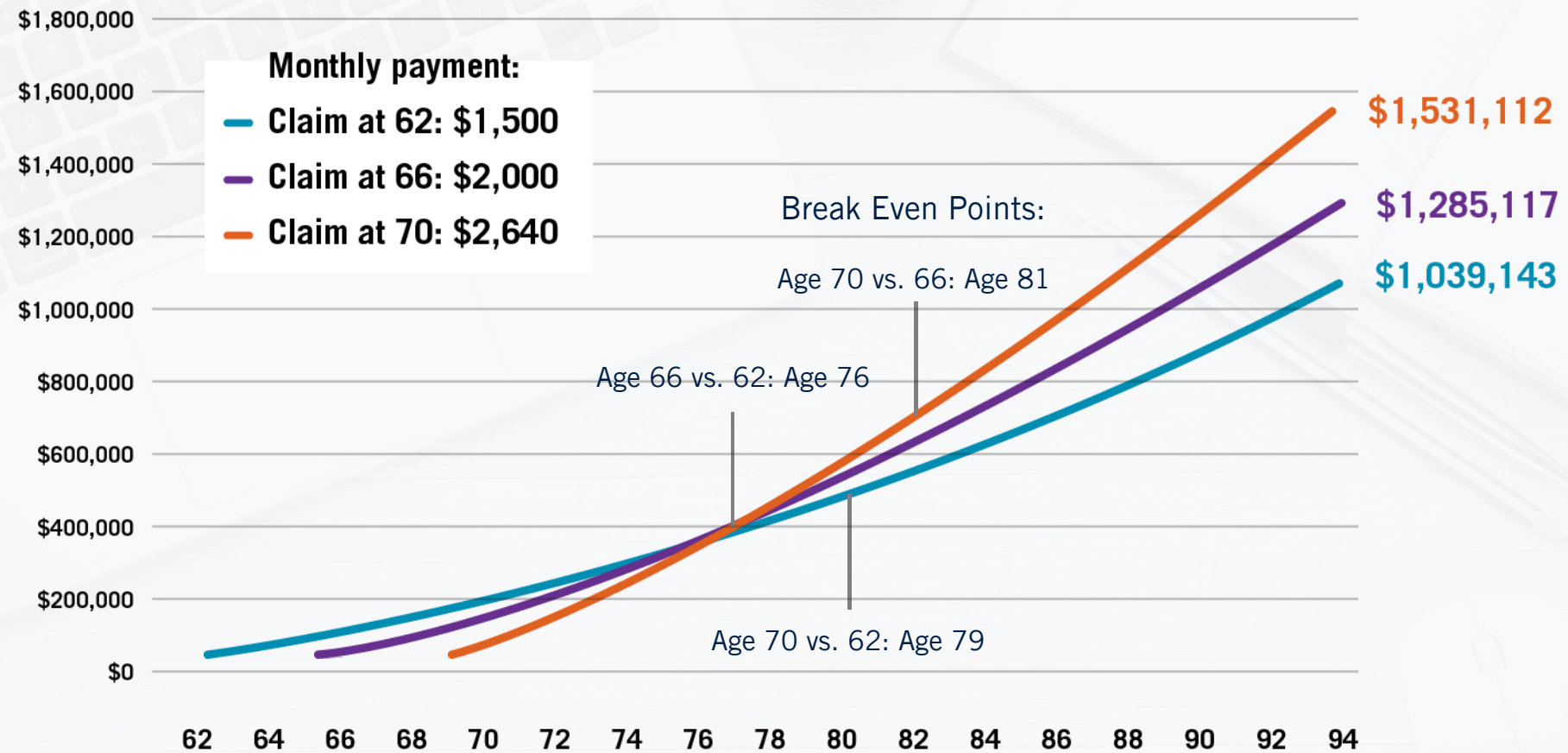
- Lives to age 92: \$1,099,657 lifetime total

2022 Social Security Earning Limits

At full retirement age or older	No limit on earnings
Under full retirement age	For every \$2 over the limit of \$19,560, \$1 is withheld from benefits.
In the year you reach full retirement age	For every \$3 over the limit of \$51,960 \$1 is withheld from benefits until the month you reach full retirement age.

www.ssa.gov, as of November 2020. Assume \$2,000 monthly Social Security benefit at Full Retirement Age and 3% Cost of Living Adjustment

Social Security Maximization Strategy



www.ssa.gov, as of November 2019. Assume \$2,000 monthly Social Security benefit at Full Retirement Age and 3% Cost of Living Adjustment

Social Security & Other Pension Benefits

- Government Pension Offset
 - **Affects spousal/survivor benefits if the spouse/survivor has a government pension**
 - **2/3 of what you receive from your government pension will be subtracted from your Social Security benefit**
- Windfall Elimination Provision
 - **If you work for an employer that does not withhold Social Security taxes from your salary, such as a government agency, any pension you receive based on that work may reduce your Social Security benefits**
 - **Pension from an employer where Social Security taxes were paid is not taken into consideration**

Sources: "Windfall Elimination Provision," SSA Publication No. 05-10045, January 2020
"Government Pension Offset," SSA Publication 05-10007, ICN 451453, May 2019



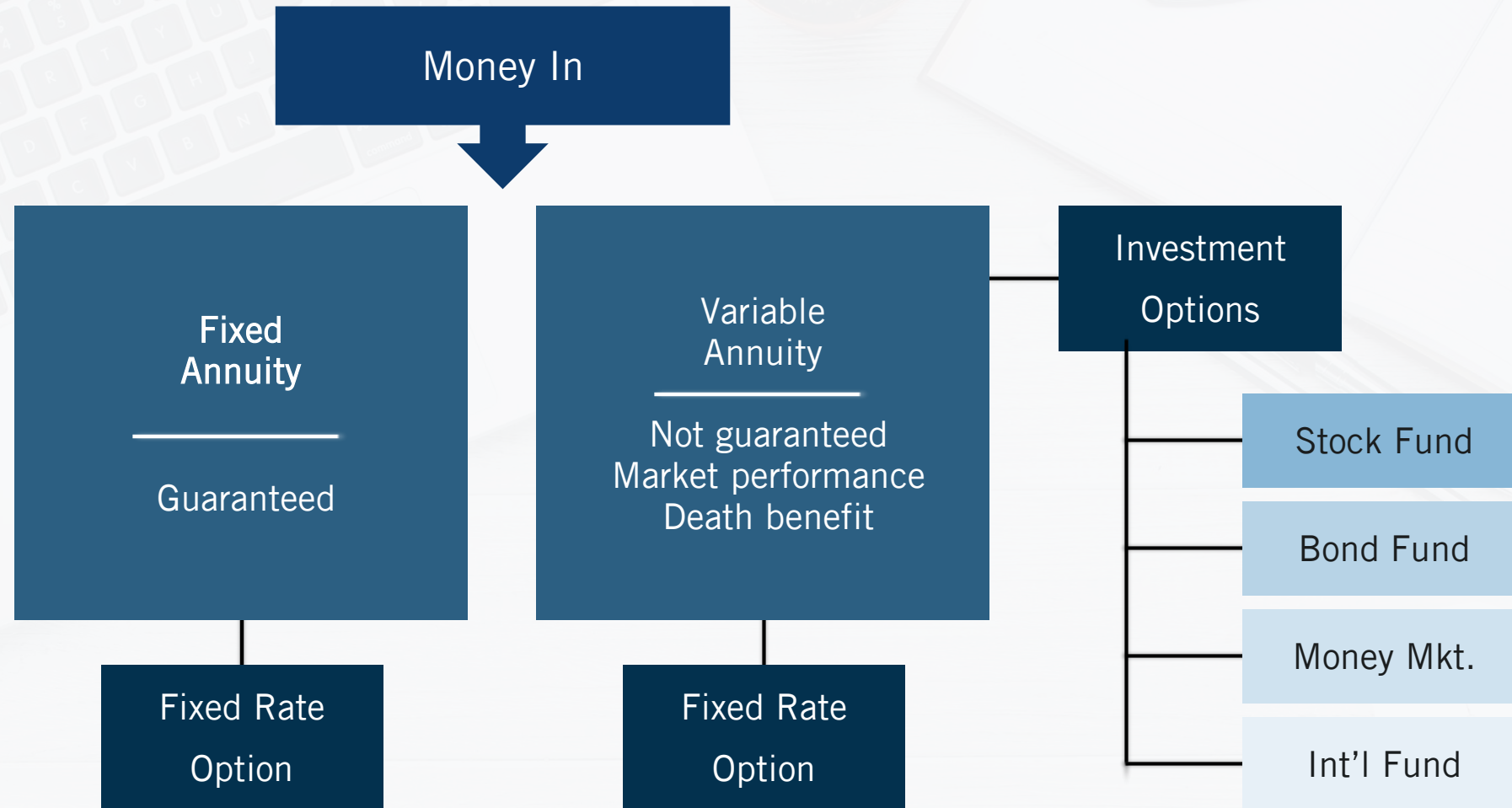
Windfall Elimination Provision

Withdrawal Options

	Definition	Pros	Cons
Lump Sum	One-time payment for the entire amount	<ul style="list-style-type: none">▪ Can be re-invested; however, the recipient would like, kept as cash or used to pay down debt	<ul style="list-style-type: none">▪ Immediate tax liability▪ Not guaranteed lifelong payments▪ Account owner bears the risk funds will be depleted before they die
Systematic Withdrawals	Installments based on amount chosen	<ul style="list-style-type: none">▪ Control over timing of and amount distributed▪ Access to funds for one-time distributions▪ Control over investments▪ Spread tax liability over period of time	<ul style="list-style-type: none">▪ Not guaranteed lifelong payments▪ Account owner bears the risk that funds become depleted before they die▪ Account owner bears market and inflationary risk
Annuitization	Periodic income payments for a lifetime or specified period	<ul style="list-style-type: none">▪ Certain annuitization options can provide an income that you cannot outlive▪ Insurance company bears investment risk. Market decline has no effect on your payment amount in a fixed option▪ Spread tax liability over period of time	<ul style="list-style-type: none">▪ May involve extra fees▪ No control over investments▪ If choosing the fixed option, no control over monthly amount paid out.▪ Limited or no access for lump sum unexpected expenses

Guarantees are based on the claims-paying ability of the insurance company and are subject to certain limitations, terms and conditions. This information is being provided for educational purposes only. Please consult with your financial advisor, who can evaluate your specific risk tolerance, time horizon and financial situation.

Fixed and Variable Annuities





Avoid The Roadblocks

- Trying to anticipate the market
- Being too safe
- Not rebalancing your portfolio

Key Takeaways

- ☒ DETERMINE what you may need to save
- ☒ DEVELOP a retirement income strategy
- ☒ MAXIMIZE your Social Security
- ☒ AVOID common roadblocks
- ☒ COMPLETE Survey

The word "SURVEY" is displayed in a stylized font where each letter is contained within a colorful speech bubble. The bubbles are arranged in a slightly overlapping, horizontal line. The colors of the bubbles are blue, gold, green, purple, blue, and gold from left to right. The word is set against a white background within a rounded rectangle.

Important Information

Investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation and political and economic changes.

Government Funds - The U.S. Government guarantee applies only to the underlying securities of the fund's portfolio and not to the value of the fund's shares.

Municipal Bond Fund - Certain investors' income may be subject to the federal alternative minimum tax (AMT), state and local taxes may apply, and capital gain distributions from the fund may be taxable.

Insured Municipal Bond Fund - Insurance pertains to the timely payment of principal and interest by the issuer of the underlying securities, and not to the value of the Fund's shares.

Money Markets - An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the Fund.

For fixed-income or bond funds, investors should receive clear disclosures that, although such funds may pay higher rates than CDs, their net-asset values are sensitive to interest-rate movement and a rise in interest rates can result in a decline in the value of the customer's investment.

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