



# **Seminar Series – Part 1 Great Strides: Understanding the Fundamentals of Financial Wellness**



# Themes of our Series

1. GREAT STRIDES:  
Understanding the  
Fundamentals of  
Financial Wellness
2. FOR THE LONG HAUL:  
Building Your Road to  
Retirement
3. CRUISING ALONG:  
Protecting You and Your  
Loved Ones





# What Does Financial Wellness Mean to You?

## Millennials (born 1979-2000)

- Credit card debt
- Student loans
- Car payments
- Housing expenses
- Saving
- Wedding expenses
- Family financial obligations

## GenXers (born 1965-1978)

- Home purchase
- Housing expenses
- Tuition expenses
- Retirement planning
- Financial security concerns
- Family financial obligations

## Boomers (born 1946-1964)

- Maximizing accumulations
- Retirement savings
- Second home purchase
- Tuition expenses
- Pre-retirement planning
- Parents and other family financial obligations
- Remarriage/second family/younger children

## Matures (born 1909-1945)

- Retirement income
- Estate preservation
- Health care costs
- Inflation risks
- Parents and other family financial obligations
- Remarriage/second family/younger children

Accumulation



Protection



Distribution



Wealth Transfer





## What Does a Good Budget Help Do?

- Track spending
- Manage debt
- Curb impulse purchases
- Determine expenses in retirement
- Find ways to save more



## ➔ Key Elements of a Budget

- Potential Sources of Income
- Fixed Expenses (Needs)
- Variable Expenses (Wants)

**MONTHLY INCOME & EXPENSE SUMMARY**

Employment Income	Today	During Retirement
Monthly Salary/Wages	\$	<input type="checkbox"/> Yes <input type="checkbox"/> No
Monthly Self-Employment (Actual)	\$	<input type="checkbox"/> Yes <input type="checkbox"/> No
<b>Total Employment Income</b>	\$	
Other Income	Today	During Retirement
Monthly Taxable Pensions	\$	<input type="checkbox"/> Yes <input type="checkbox"/> No
Other Monthly Taxable Income	\$	<input type="checkbox"/> Yes <input type="checkbox"/> No
Other Monthly Non-Taxable Income	\$	<input type="checkbox"/> Yes <input type="checkbox"/> No
<b>Total Other Income</b>	\$	
Household Related Expenses	Today	During Retirement
Mortgage / Rent	\$	<input type="checkbox"/> Yes <input type="checkbox"/> No
Condominium / Association Fees	\$	<input type="checkbox"/> Yes <input type="checkbox"/> No
Homeowner's Insurance (if not included in mortgage payment)	\$	<input type="checkbox"/> Yes <input type="checkbox"/> No
Property Taxes (if not included in mortgage payment)	\$	<input type="checkbox"/> Yes <input type="checkbox"/> No
Phone Charges - Cellular and Landline	\$	<input type="checkbox"/> Yes <input type="checkbox"/> No
Utilities - Heat / Gas / Oil / Electric / AC / Water / Sewer	\$	<input type="checkbox"/> Yes <input type="checkbox"/> No
Cable/Satellite TV / Internet	\$	<input type="checkbox"/> Yes <input type="checkbox"/> No
Home Maintenance / Property Care / Cleaning Supplies	\$	<input type="checkbox"/> Yes <input type="checkbox"/> No
Other Household	\$	<input type="checkbox"/> Yes <input type="checkbox"/> No
<b>Total Household Expenses</b>	\$	
General Expenses	Today	During Retirement
Alimony/Child Support	\$	<input type="checkbox"/> Yes <input type="checkbox"/> No
Child Care / Elder Care	\$	<input type="checkbox"/> Yes <input type="checkbox"/> No
Groceries	\$	<input type="checkbox"/> Yes <input type="checkbox"/> No
Pet Care and Food	\$	<input type="checkbox"/> Yes <input type="checkbox"/> No
Clothing / Dry Cleaning	\$	<input type="checkbox"/> Yes <input type="checkbox"/> No
Gym / Sports / Hobbies (golf, tennis, etc)	\$	<input type="checkbox"/> Yes <input type="checkbox"/> No
Vacation	\$	<input type="checkbox"/> Yes <input type="checkbox"/> No
Entertainment (movies, dining out)	\$	<input type="checkbox"/> Yes <input type="checkbox"/> No
Tuition Costs / Education	\$	<input type="checkbox"/> Yes <input type="checkbox"/> No
Debts (Credit Cards, Student or other Loan Payments)	\$	<input type="checkbox"/> Yes <input type="checkbox"/> No
Gifts (Birthday, anniversary)	\$	<input type="checkbox"/> Yes <input type="checkbox"/> No
Charitable Donations	\$	<input type="checkbox"/> Yes <input type="checkbox"/> No
Emergency Fund	\$	<input type="checkbox"/> Yes <input type="checkbox"/> No
Hygiene Products & Services	\$	<input type="checkbox"/> Yes <input type="checkbox"/> No
Other General	\$	<input type="checkbox"/> Yes <input type="checkbox"/> No
<b>Total General Expenses</b>	\$	

# Activity





## **Managing Debt**

**Make managing debt a high priority:**

**Reduce debt or credit card with the highest interest rate first**

**Consolidate debt where possible**

**Avoid incurring unnecessary debt**

# What Do You Need Your Savings For?



Retirement



Protection  
Solutions



Big Ticket  
Items



Emergency  
Fund



Caring for  
Family







## ➔ Savings and Investing Vehicles

- Savings account
- Certificate of deposit
- Individual stocks and bonds
- Mutual fund
- Annuities

# Types of retirement accounts

- Individual Retirement Accounts (IRAs)
- Roth IRAs
- Company-sponsored retirement plans
  - **401(k) plans**
  - **403(b) plans**
  - **457(b) plans**
  - **Pension plans**



# College Funding

- 529 Plans
- Coverdell Education Savings Accounts



TUITION AND FEES INCREASED  
AT AN AVERAGE RATE OF

2.3%

PER YEAR BEYOND INFLATION\*

\* Trends in College Pricing. 2019 The College Board, for public 4-year in-state tuition



# Tax Implications

Pre-Tax	After-Tax	Potentially Income-Tax Free
<ul style="list-style-type: none"><li>▪ Company-sponsored retirement plan:<ul style="list-style-type: none"><li>• 401(k)</li><li>• 403(b)</li><li>• 457(b)</li><li>• Pension plan</li></ul></li><li>▪ IRA</li><li>▪ Simplified Employee Pension (SEP)</li></ul>	<ul style="list-style-type: none"><li>▪ Savings account</li><li>▪ Certificate of deposit</li><li>▪ Mutual fund</li><li>▪ Annuity</li><li>▪ Real estate</li></ul>	<ul style="list-style-type: none"><li>▪ Tax-exempt bonds/funds<sup>1</sup></li><li>▪ Education savings account</li><li>▪ Life insurance death benefits<sup>2</sup></li><li>▪ Roth IRA<sup>3</sup></li><li>▪ Roth account in company-sponsored plan</li><li>▪ 529 Plan</li></ul>

<sup>1</sup> Tax-exempt income may impact the taxation of Social Security benefits and may have alternative minimum tax (AMT) consequences.

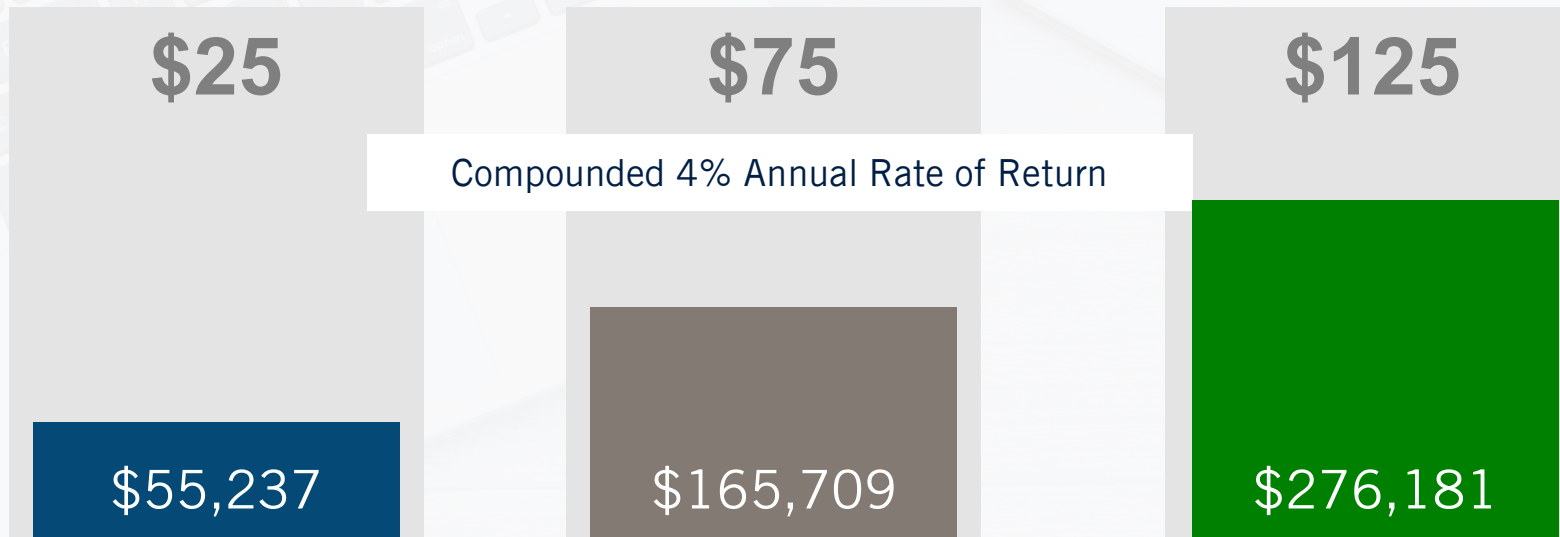
<sup>2</sup> Under section 101 of the Internal Revenue Code, most life insurance death benefits are income tax free. But if a policy has been transferred for value, the portion of the death benefit that represents gain may be taxable. There are some exceptions to this general rule, including certain changes in ownership and payment of any additional interest at death.

<sup>3</sup> Qualified distributions are federally tax-free, provided the Roth account has been open for up to five tax years and the owner has reached age 59 ½ or meets other requirements. Qualified Roth IRA distributions may be subject to state and local income tax.



# Pay Yourself First

Imagine if you saved this much each week...



You could have this much in 25 years!\*

\* The compounding example is hypothetical and for illustrative purposes only and is not intended to represent performance of any specific investment, which may fluctuate. No taxes are considered in the calculations; generally withdrawals are taxable at ordinary rates and it assumes no withdrawals. It is possible to lose money by investing in securities. Assumes a 4% annual rate of return. Neither Prudential Financial nor any of its representatives are tax or legal advisors and encourage you to consult your individual legal or tax advisor with any specific questions.



# Pre-tax Investing



	Not Contributing to Retirement Plan	Contributing to Retirement Plan
Nick's salary per week	\$1,000	\$1,000
Employee contribution to retirement plan	\$0	\$60
Taxable income	\$1,000	\$940
Federal tax and FICA	\$162	\$153
Nick's take-home pay	\$838	\$787

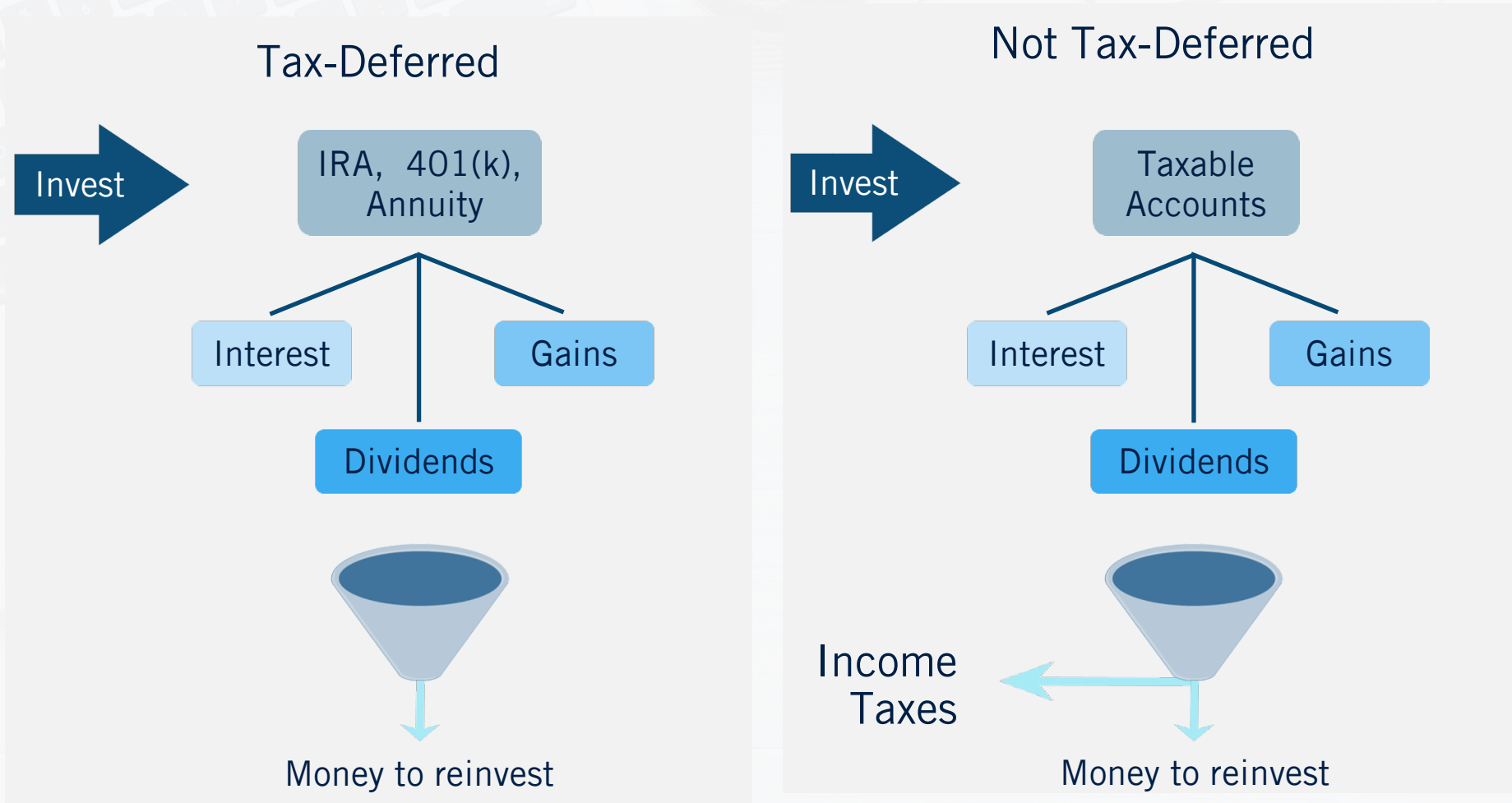
Paycheck is only \$51 less!

For illustrative purposes only. Assumes no state/local taxes, single filing status, one allowance and an income bracket of 25%. Retirement plan distributions will be taxed upon withdrawal.

Amounts withdrawn are subject to income taxes and may be subject to tax penalties. Withdrawals before age 59 1/2 may also be subject to a 10% federal income tax penalty and plan restrictions. See plan information regarding limitations on withdrawals from your 401(k) account.



# Tax-deferred Investing



# Time and Compounding

The Rule of 72...

$$= \frac{72}{\frac{\text{Years to double your money}}{\text{Rate of Return}}}$$

Example:

Using a 7.2% interest rate,  
it will take **10 Years** to  
double your money

- The return is hypothetical and is for illustrative purposes only. There is no guarantee results will be achieved and does not reflect the performance of any specific investment.



# Dollar-cost Averaging

Purchase Date:		Jan '22	Feb '22	Mar '22	Apr '22	May '22	Total
Amount Invested:	Investor A:	\$5,000	\$0	\$0	\$0	\$0	\$5,000
	Investor B:	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$5,000
Price Per Share:	Investor A:	\$10.00	N/A	N/A	N/A	N/A	\$10.00
	Investor B:	\$10.00	\$6.00	\$4.00	\$7.00	\$12.00	\$7.80
Number of Shares Purchased:	Investor A:	500	N/A	N/A	N/A	N/A	500
	Investor B:	100	167	250	143	83	743

- There is no guarantee results will be achieved and the hypothetical chart does not reflect the performance of any specific investment.
- A periodic investment plan such as dollar-cost averaging does not assure a profit or protect against a loss in declining markets. Since such a strategy involves continued investment, the investor should consider his or her ability to continue purchases through periods of low price levels.

# Diversify Your Assets

## Non-Diversified



### 100% CASH

He has:

- Low risk to principal
- Low growth potential

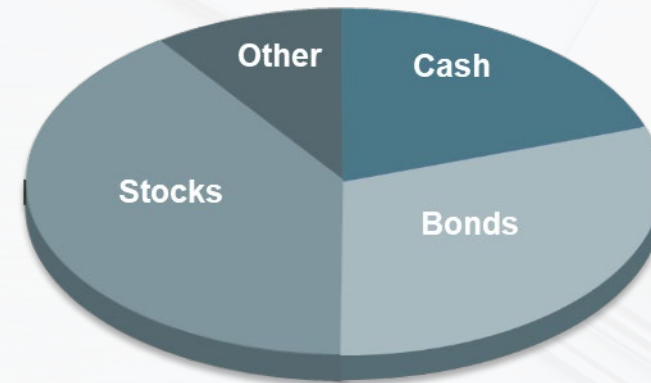


### 100% STOCKS

She has:

- High risk
- High growth potential

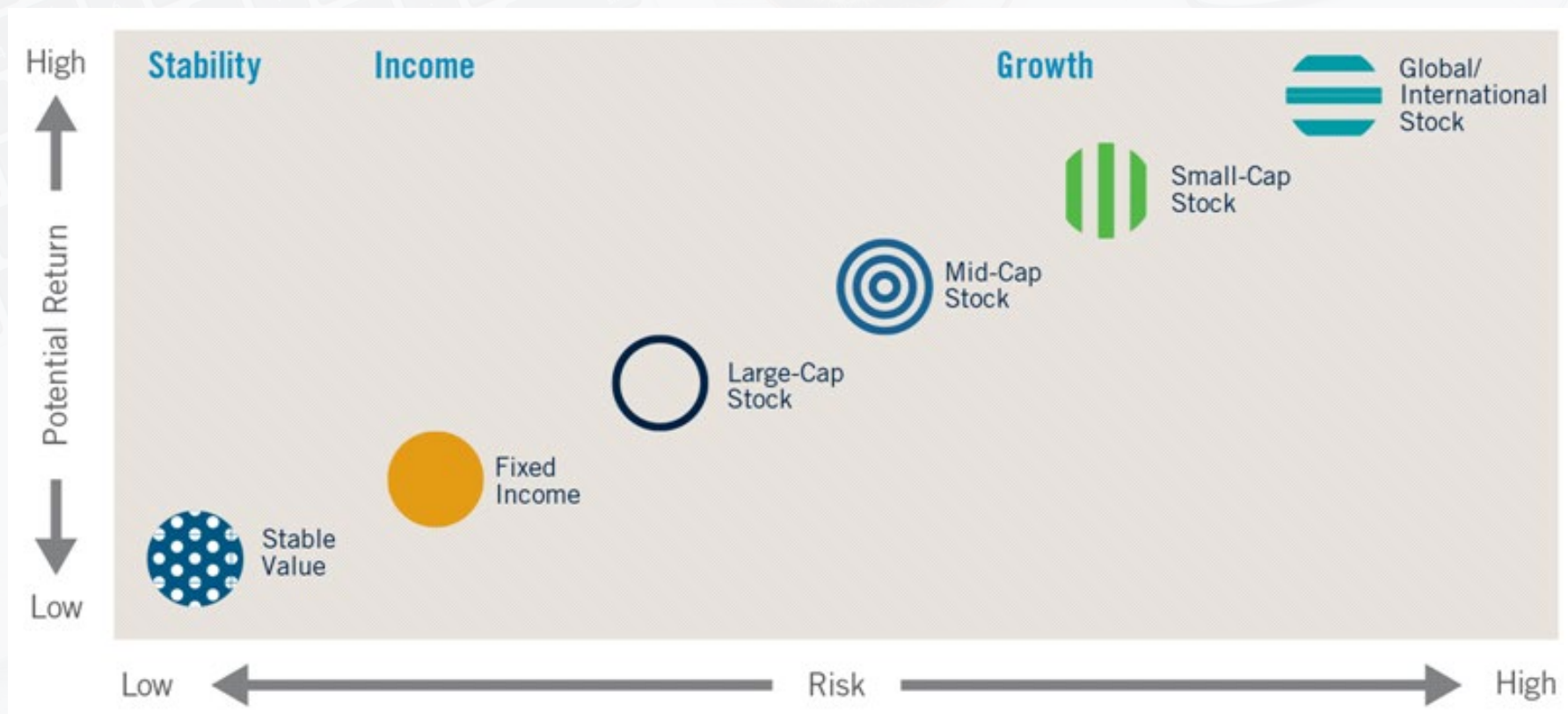
## Diversified



- Money in “several baskets”
- Tolerable risk
- Some growth potential



# Risk Vs. Reward



This is a simplified illustration of the relationship between investment risk and potential rate of return. There is no assurance that higher risk investments will provide greater returns over time. Past performance is not indicative of future performance. Strategies such as asset allocation or diversification will not ensure a profit or protect against a loss.



# Develop An Asset Allocation Strategy



Goals

Timeline

Risk  
Tolerance

This example is for illustrative purposes only and is not intended to represent the performance of any single investment or combination of investments. Past performance of investments or asset classes does not guarantee future results. Indexes are unmanaged – it is impossible to invest directly in an index. It is possible to lose money by investing in securities.



## DEFINING YOUR INVESTMENT RISK TOLERANCE



### WHAT KIND OF INVESTOR ARE YOU?

Complete this questionnaire to find out.

1. If you had an investment account – when do you think you would need to withdraw money?

- a. Less than 1 year
- b. 1-2 years
- c. 3-4 years
- d. 5-7 years
- e. 8-10 years
- f. 11+ years

**SCORING:** Please circle your answer for each question. At the end of the questionnaire, you will add up the scores associated with the answers you chose.

a.0 b.1 c.3 d.7 e.9 f.11

2. What is the primary goal of this investment?

- a. Education funding
- b. Retirement funding
- c. Estate planning
- d. Use money to buy a house, go on vacation, etc.

**SCORING:** a.0 b.5 c.10 d.15

3. Over the next five years, do you expect your financial situation to:

- a. Dramatically improve
- b. Improve somewhat
- c. Stay about the same
- d. Worsen

**SCORING:** a.2 b.4 c.5 d.6

4. When investing, there may be natural trade-off between investment in a portfolio value. Typically, the higher the return you pursue, the fluctuations and potentially incur loss. Considering the above, which investment objectives?

- a. Protect the value of my account
- b. Keep risk to a minimum
- c. Balance risk and return
- d. Maximize long-term investment returns

**SCORING:** a.0 b.5 c.10 d.15



### WHAT KIND OF INVESTOR ARE YOU? *continued*

5. If you owned a portfolio that declined 25% in a short period of time due to a volatile market and you had 10 years until you needed to take withdrawals, what action below would you take?

- a. I would change immediately
- b. I would wait only three months to react
- c. I would wait at least a year before deciding what to do
- d. I would not change my portfolio

**SCORING:** a.0 b.5 c.10 d.15

**Total Score:** \_\_\_\_\_

(Add up the values for all the answers circled above)

The pie charts below show suggested allocations based on your level of risk tolerance.

■ Cash equivalents ■ Bonds/fixed income ■ Domestic stocks ■ International stocks



**Score between 0-11**

Equity: 20.00% Fixed: 80.00%

**CAPITAL PRESERVATION** – As an investor you seek stability and are concerned with preservation of capital.



**Score between 12-24**

Equity: 40.00% Fixed: 60.00%

**CONSERVATIVE** – As an investor you seek stability with modest potential for increase in the value of your investments.



**Score between 25-37**

Equity: 60.00% Fixed: 40.00%

**MODERATE** – You are an investor who doesn't need the money today and you're looking to accept a moderate amount of risk to achieve long-term steady growth in asset values.



**Score between 38-50**

Equity: 80.00% Fixed: 20.00%

**GROWTH** – You are a long-term investor who doesn't need the money today and you understand in order to achieve moderately high growth in asset values you will experience market volatility.



**Score between 51-62**

Equity: 100.00% Fixed: 0%

**AGGRESSIVE GROWTH** – You are a long-term investor who is willing to entail substantial year-to-year volatility in asset value in exchange for potentially high long-term returns.

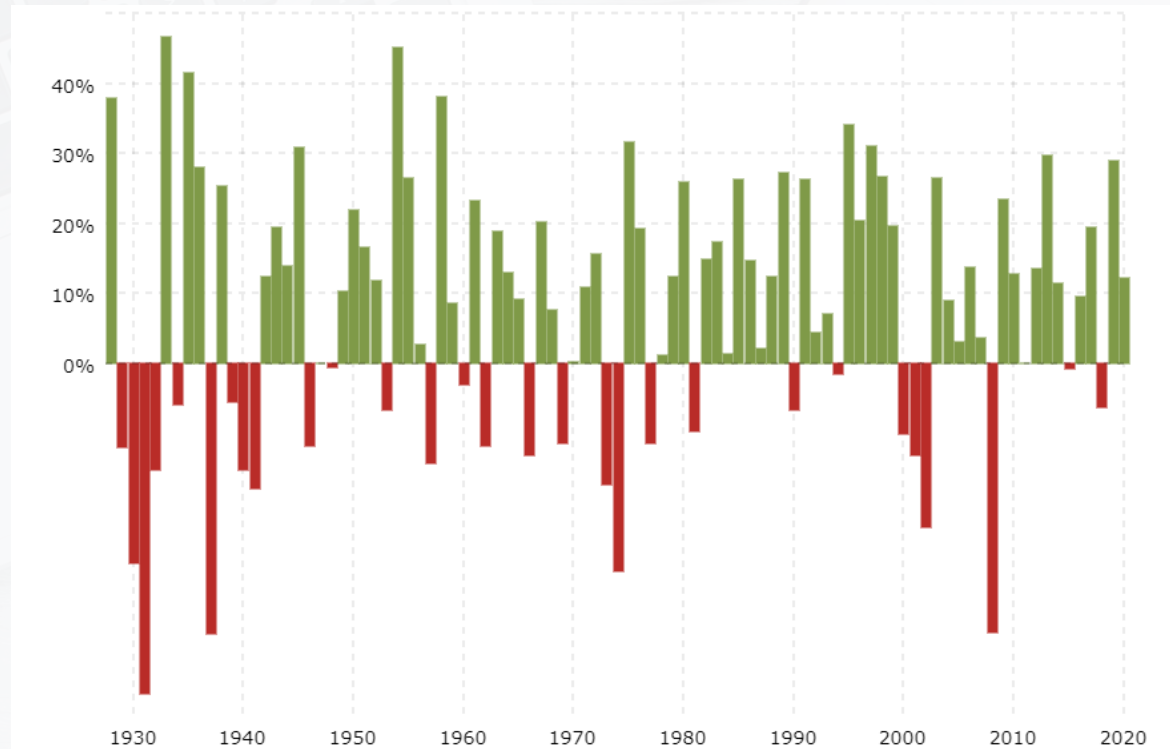
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# Asset Allocation Questionnaire Activity

# Invest Regularly & Maintain A Long-term Perspective

Annual Average Return of the S&P 500 Index (1930-2020)<sup>1</sup>



<sup>1</sup> Data from 1930-2020. S&P 500 Historical Annual Returns

<sup>2</sup> Interactive chart showing the annual percentage change of the S&P 500 index back to 1927. Performance is calculated as the % change from the last trading day of each year from the last trading day of the previous year. The current price of the S&P 500 as of November 16, 2020 is 3,626.91.

Image source: <https://www.macrotrends.net/2526/sp-500-historical-annual-returns>. Accessed November 2020.





## ➔ **Asset Consolidation**

- **Less paperwork**
- **Eliminate hassles and confusion of monitoring multiple accounts**
- **Develop a clear picture of your overall portfolio**
- **Track your progress to achieve financial health**

# Rollover IRA: Pros and Cons

ROLLOVER IRA	
PROS	CONS
No immediate income tax	No loans
No early withdrawal penalties on amount rolled over	Early withdrawal restrictions
Rollovers can later be converted to a Roth	Required minimum distributions at 72 (70 ½ for those who turned 70 ½ before January 1, 2020)
Greater control of account	Lose net unrealized appreciation on employer stock previously in 401(k)
Wider array of investment choices	Potentially higher fees
Early withdrawals available under certain conditions	



# Roth Conversions: Pros and Cons

ROTH CONVERSION	
PROS	CONS
Tax free transfer if from a Roth 401(k)	Rollover amount fully taxable from 401(k)s and traditional IRAs
Tax free growth	
Tax diversification in retirement & hedge against increasing taxes	
No required minimum distributions (RMDs) during your lifetime	
Estate planning benefits	
Greater control of account	
Wider array of investment choices	

Each option has advantages and disadvantages, depending on the desired investment options and services, fees, and expenses, withdrawal options, required minimum distributions, tax treatment, and the investors unique financial needs and retirement plans.

Qualified distributions are federally tax-free, provided the Roth account has been open for at least five tax years and the owner has reached age 59 ½ or meets other requirements. Qualified Roth IRA distributions may be subject to state and local income tax. Conversions to a Roth IRA are generally fully taxable. Before you convert to a Roth IRA, consider how your tax bracket will affect the overall benefit of the rollover. Conversion income may push you into a higher tax bracket. It is, however, possible to convert only part of a traditional IRA. This could enable you to remain in the same tax bracket you would be in without the conversion. It is generally advisable to pay the taxes on the conversion with funds other than those in your traditional IRA. If you are under age 59½ when you do a conversion, any funds not deposited in the Roth IRA will be subject to the 10% federal income tax penalty (unless an exception applies).





## Rolling Assets Into Current Company- Sponsored Plan

- Compare the investment options between the old 401(k)s and a current 401(k)
  - How do the fees compare?
  - Is a rollover permitted by a current 401(k)?
  - Review direct rollover procedures
- Each option has advantages and disadvantages, depending on the desired investment options and services, fees, and expenses, withdrawal options, required minimum distributions, tax treatment, and the investors unique financial needs and retirement plans.





## **Taking Early Withdrawals**

# Imagine Your Retirement





## Key Takeaways



### REVIEW

Current Situation



### SET

A Household Budget



### COMMIT

To Save More



### CELEBRATE

Stick to Your Goals



### COMPLETE



# Important Information

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