Prudential
PATHWAYS
A Financial Wellness Series

ARE YOU PREPARED FOR POTENTIAL THREATS TO YOUR RETIREMENT?

Your cash flow is more important than your cash pile

As you begin to transition from the saving phase of retirement planning to the income phase, a greater focus should be on your retirement cash flow rather than your cash pile. This worksheet will help you identify and prepare for potential threats to retirement cash flow.

To get started, here are some important questions to think about and discuss with your financial professional:

- Have you calculated what your expenses will be in retirement and how you will pay for those expenses?
- Have you taken an inventory of all your sources of guaranteed retirement income?
- Have you determined how much you can safely withdraw from your non-guaranteed retirement accounts?
- Are you aware that it's not only the investment returns you receive in retirement, but the sequence in which you receive them that can significantly impact your retirement income strategy?
- Do you currently have, or have you considered the benefits of, income sources that are protected against the impact of market volatility?

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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, go to www.ssa.gov to download your most recent benefits 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.)

Source: The Balance "The 'Multiply by 25' and '4 Percent' Retirement Rules." February 4, 2020.

2D.

Enter your estimated income from non-guaranteed sources above.

TOTAL: This is your total anticipated income in retirement

=

2E.

Add 2A, 2B, 2C, and 2D. 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
Top 1%	$515,371	21.0%
Top 5%	$208,053	23.7%
Top 10%	$145,135	21.5%
Top 25%	$83,682	18.2%
Top 50%	$41,740	16.0%

Average effective tax rate for 2017 (latest year for available data). Source: Tax Foundation https://tax-foundation.org/summary-of-the-latest-federal-income-tax-data-2020-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 2E by your estimated federal tax rate in 4A.

+

4C.

Enter your income gap from step 3 above.

=

4D.

Add 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 4D above.

=

5D.

Add 5B and 5C.

STEP 6

HOW MUCH WILL HEALTHCARE COST YOU IN RETIREMENT?

A. Medicare Costs – Have you considered the cost of premiums for Medicare, dental care, and vision care? At age 65, you become eligible for Medicare – and there is a cost for your coverage. The average out-of-pocket cost for someone in good health is $5,500 per year. This amount could be significantly higher for someone with health issues.
(Go to the official government site for Medicare to estimate your costs: www.medicare.gov)

Enter your estimated Medicare costs per year here

6A.

B. Long-term Care Costs – 70% of people turning age 65 can expect to use some form of long-term care during their lives.[1]

According to Genworth, the average annual cost of long-term care can range from $48,612 for an assisted living facility to $102,200 for a full-service nursing home.[2]

To prepare for this potential drain on financial resources, many planners recommend purchasing long-term care (LTC) insurance. **Do you have long-term care insurance?**

- **If you do or would like to,** enter the amount of your annual premium payments here, or ask your financial professional for an estimate.
Enter the number here and skip to "C".

6B.
Annual LTC premiums

- **If you do not,** and would prefer to "self-insure," how much would you need to save each year to cover yourself (and your spouse) against the potential cost of skilled home care or nursing home care?

Calculation 1 Enter the number of years until you or your spouse reach age 79.
(Note that if you change values in c1, you will need to adjust the values in c2 and c3 accordingly.)

c1.

Calculation 2 Divide either $48,612 (for home care) or $102,200 (for nursing home care) by the number from Calculation 1. This is your annual cost of self-insurance for one person. **Enter the number here.**

c2.
Annual cost of self-insurance for one person

Calculation 3 Enter the number from Calculation 2 if you are insuring against one year's expense for one person. Double (or triple) the number to cover 2 (or 3) year's expenses. Double this number again if you are saving for yourself and your spouse. **Enter the amount here.**

c3.
Final annual cost to self-insure

C. Add the Medicare cost (from 6A) to your LTC premium (from 6B) or the annual self-insurance cost (from c3). This is your total annual healthcare cost. **Enter the amount in Step 6C.**

6C.

This is your new income gap

6D.
Add 6C and 5D.

[1] 2018 U.S. Department of Health and Human Services https://longtermcare.acl.gov, August 29, 2018.
[2] Genworth 2019 Cost of Care Survey. November 21, 2019.
Source: U.S. Department of Health and Human Services. https://longtermcare.acl.gov/costs-how-to-pay/index.html

STEP 7

WILL YOUR PENSION BENEFITS BE REDUCED?

- If you are entitled to a pension, have you considered all pension payment options?
- Have you elected a single-life, joint-life or period certain payout option?
- Is your pension integrated with Social Security?

When you elected your pension payout, you may have chosen a payout integrated with Social Security, sometimes referred to as a "level income annuity" option.

While it provides increased monthly income before you are eligible for Social Security benefits, once you are eligible, the reduction in pension benefits could be between 50% and 80% of your Social Security benefits. Multiply your Social Security payment from 2B by the integration percentage.

7A.

Enter the pension reduction amount above.

+

7B.

Enter your income gap from step 6 above.

This is your total income gap =

7C.

Add 7A and 7B . This is your new income gap.

Take action to help secure your future

There's a lot to think about when planning for retirement income. After considering all of the potential costs in retirement, you may be surprised to learn that your income gap is larger than you thought it would be. This could require you to withdraw more from your retirement accounts than originally planned and exhaust your savings sooner than expected.

It might be a good time to discuss retirement income planning strategies with your financial professional. A comprehensive retirement income strategy often involves taking a holistic approach which includes making informed decisions about:

- Social Security and retirement plan distribution options,
- Taking sustainable withdrawals from a well-diversified retirement portfolio, and
- Proper product allocation, including possibly making use of life insurance, long-term care insurance, mutual funds and annuities.

Take the Next Step

Use this worksheet as a starting point for a conversation with your financial professional. He or she can help create a personalized retirement income strategy to help close any income gap that may be waiting for you in retirement.

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