Transitioning Successfully Into Retirement

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Worksite Education Program Speaker
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Ensuring a successful transition into retirement

- Envision retirement
- Manage cash flow
- Replace health insurance
- Determine which benefits can go with you
- Create an income stream
- Manage investments
- Protect retirement savings
- Conduct estate planning

Ensuring financial wellness in retirement
Life expectancy

For people age 65 today...

90

About one in every three will live past 90

95

About one in seven will live past 95


Expense Types

- Fixed/Needs
  - Required to run the household
  - Less likely to fluctuate month-to-month

- Variable/Wants
  - Not required to run the household
  - More likely to fluctuate month-to-month

Understanding the Difference is Important!

FIXED Expenses (NEEDS)

- Home
- Food
- Utilities
- Transportation
- Healthcare
- Insurance
- Property taxes
- Alimony and child support
Variable Expenses (Wants)
- Entertainment
- Vacations
- Hobbies
- Sports
- Home improvement
- Gifts
- Charitable giving

Account for inflation

<table>
<thead>
<tr>
<th>Basic Needs</th>
<th>2020</th>
<th>2030</th>
<th>2040</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>$670</td>
<td>$945</td>
<td>$1,333</td>
</tr>
<tr>
<td>Shelter</td>
<td>$1,796</td>
<td>$2,533</td>
<td>$3,574</td>
</tr>
<tr>
<td>Transportation</td>
<td>$934</td>
<td>$1,318</td>
<td>$1,858</td>
</tr>
<tr>
<td>Total</td>
<td>$3,400</td>
<td>$4,796</td>
<td>$6,765</td>
</tr>
</tbody>
</table>

This is a hypothetical example for illustrative purposes only. Every individual’s situation and expenses are unique. Assumes a 3.5% annual inflation rate over time.
Health insurance

Average medical costs for retirees

Estimated average out-of-pocket medical costs for a 65-year-old couple retiring today:

$285,000

... and even more if chronic illness care is needed

Source: Fidelity Benefits Consulting estimate, [2019]. 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 expenses may be more or less depending on actual health status, area of residence, and longevity. Estimate is net of taxes.

Securing health insurance coverage

- Coverage through spouse’s/partner’s employer
- Individual health insurance policy
- COBRA
- Medicare
- Supplemental insurance
- Health flexible spending accounts
Determine which benefits can go with you

- Health and dental insurance
- Health flexible spending accounts
- Life and disability income insurance
- Pension, 401(k), or TSP
- Stock bonus plans

Assume an extended retirement

How much will you need?

Consider:
- The lifestyle you want when you retire
- Your retirement age
- Your Social Security benefits and when you elect to take them
- Your company retirement benefits
- The rate of inflation
- Income tax rates
- Your health
- Salary when leaving uniformed services
• Identify retirement income challenges
• Know what to “tap” first
• Maximize Social Security
• Consider lifetime income options
• Understand your goals and objectives

Where will your retirement money come from?
• Social Security retirement benefits
• Part-time job
• Individual Retirement Account (IRA)
• Roth IRA
• Company-sponsored retirement plan (e.g. TSP)
• Pension (military retirement and/or disability payments)
• Cash value from life insurance
• Annuities
• Savings
• Inheritance

What to tap first?
• Taxable
• Tax-Deferred
• Tax-Free
### Tax Implications

<table>
<thead>
<tr>
<th>Before-Tax</th>
<th>After-Tax</th>
<th>Potentially Income Tax Free</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company-sponsored retirement plan: 401(k), 403(b), 457(b), TSP, Pension plan</td>
<td>Savings account, Certificate of deposit, Mutual fund, Annuities, Real estate</td>
<td>Tax exempt/bond/stock, Education savings accounts, Life insurance-death benefits, Roth IRA, Roth accounts in company sponsored plans, 529 Plans</td>
</tr>
</tbody>
</table>

1. Tax-exempt income may impact the taxation of social security benefits and may have AGI consequences.
2. Under section 101 of the Internal Revenue Code, most life insurance death benefits are income tax free. However, 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.
3. 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 59½ or meets other requirements. Qualified Roth IRA distributions may be subject to state and local income tax.

### Retirement plan distribution options

- Lump sum taxable distribution
- Roll funds into an IRA or annuity
- Roll funds into another tax-deferred plan
- Leave with your employer
- Hybrid—partial withdrawal/partial rollover

### Withdrawal options

<table>
<thead>
<tr>
<th>Definition</th>
<th>Form</th>
<th>Case</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lump Sum</td>
<td>One-time payment for the entire amount</td>
<td>Immediate tax liability, not guaranteed lifelong payments, account owner bears the risk funds will be depleted before they die, subject to mandatory 20% federal income tax withholding so you don't have immediate access to all cash</td>
</tr>
<tr>
<td>Systematic Withdrawals</td>
<td>Periodic payments based on amount chosen</td>
<td>Control over timing of and amount distributed, access to funds for one-time distributions, control over investments, spread tax liability over period of time, not guaranteed lifelong payments, account owner bears the risk that funds become depleted before he/she dies, account owner bears market and inflationary risk</td>
</tr>
<tr>
<td>Annuity</td>
<td>Periodic income payments for a lifetime or specified period</td>
<td>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, 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</td>
</tr>
</tbody>
</table>

*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.*
Reasons to roll your company money into an IRA:

- Ability to keep the money growing tax-deferred for your beneficiaries.
- Choice for certain beneficiaries to withdraw minimum amounts over their lifetimes, others can defer withdrawals up to 10 years.
- You can name multiple beneficiaries.
- Wide variety of investment option choices.
- Conversion to Roth IRA.

Should you roll your assets into an IRA?

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.

How assets should be invested during retirement
Understand your goals and objectives

**Short-term**
- 1-4 Years
- Safety and liquidity
- Cash &/or bonds

**Mid-term**
- 5-7 Years
- Relatively safe, some growth
- Cash, bonds, & large cap stocks

**Long-term**
- 8+ Years
- Greater risk/reward potential
- Cash, bonds, small, mid, large, & international stocks

Diversify your assets - Risk vs. reward

- **Stability**
- **Income**
- **Growth**

Non-Diversified

100% CASH
- Low risk to principal
- Low growth potential

100% STOCKS
- High risk
- High growth potential

Diversified

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

This is a simplification 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.
Being “too conservative”
Potential growth of $5,000 at a 1% rate of return

$6,739
30 Years

The compounding concept is hypothetical and for illustrative purposes only and is not intended to represent performance of any specific investment. No taxes are considered in the calculations; generally withdrawals are taxable at ordinary rates. It is possible to lose money by investing in securities.

Don’t be “too conservative”
Potential growth of $5,000 hypothetically invested in S&P Index over 30 years

$110,401
30 Years

S&P Dow Jones Indices - http://www.spindices.com/indices/equity/sp-500 (1983-2012). The compounding concept is hypothetical and for illustrative purposes only and is not intended to represent performance of any specific investment, which may fluctuate. It is not possible to invest directly in an index. No taxes are considered in the calculations; generally withdrawals are taxable at ordinary rates. It is possible to lose money by investing in securities.

Reasons to keep life insurance after you retire:
▪ To provide a death benefit
▪ Help family pay off significant financial obligations
▪ Potential to secure a loan (tax consequences for this option)
▪ Help with estate planning strategies
▪ Death benefit proceeds can be used to help pay taxes on a high-value estate

Do you need life insurance in retirement?
Types of life insurance

<table>
<thead>
<tr>
<th>Coverage</th>
<th>Permanent</th>
<th>Term</th>
<th>Whole</th>
<th>Universal</th>
<th>Survivorship</th>
<th>Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Temporary Coverage</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Permanent Coverage</td>
<td></td>
<td>✓</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guaranteed Death Benefit</td>
<td></td>
<td>✓</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Focus on Affordability</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cover Two Lives with One Policy</td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Potential to Build Cash Value</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Growth Potential Based on Market</td>
<td></td>
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<tr>
<td>Tax-advantaged Death Benefit</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Ability to Access Money</td>
<td></td>
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</tbody>
</table>

Eligibility for Veterans' Group Life Insurance (VGLI)

Who is eligible?
- Members of the uniformed services covered under Servicemembers' Group Life Insurance (SGLI) separating from active duty or active duty for training.
- Ready Reserve/National Guard insured under SGLI who are separated, retired or released from assignment.
- Individuals assigned to Individual Ready Reserve or Inactive National Guard Coverage.
- Not automatic; Service members have limited time to apply.
- Coverage remains in effect as long as premiums are paid by individual.

Enrollment period:
- From the date of separation, refinement or assignment:
  - One year and 120 days
  - No health questions asked if applying within 240 days
  - Health questions asked if applying after 240 days

Do Your Research! For more information, go to https://www.va.gov/life-insurance/options-eligibility/vgli/
Long-term care insurance

Who is it for?
- You and the people who depend on you

What does it do?
- Covers costs incurred in cases of long-term chronic illness or disability

Considerations
- Costs of care
- Policy features and amount of coverage

Long-term care lasts many months or years

Long-Term Problems

50% of 65 y.o. are projected to need nursing home or other care services.

Length of care needed:
- Few years or more: 16%
- Less than two years: 23%
- No need: 61%

Source: Department of Health and Human Services.

Everyone needs an estate planning strategy
Estate planning fundamentals

- A Will
- Trusts
- Living Will/Advance Directive & Power of Attorney
- Beneficiaries
- Probate

Estate planning pitfalls

- Not having a plan
- Not putting your plan in writing
- Not reviewing your assets to determine which should be titled in a way that avoids probate
- Not preparing custodian arrangements for minors
- Not using common estate planning documents to minimize taxes

Beneficiary review

- A large portion of your total assets may be retirement assets
- Review beneficiary designations annually or after life-changing events
- Wills only cover probate assets
- Spousal beneficiaries in qualified plans
- Life event that may trigger a change
- The dangers of naming trusts as beneficiary of retirement accounts
Federal estate tax exemptions

<table>
<thead>
<tr>
<th></th>
<th>2020 Tax Year</th>
<th>2021 Tax Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estate Tax Exemption</td>
<td>$11,580,000</td>
<td>$11,700,000</td>
</tr>
<tr>
<td>Generation-Skipping Transfer Tax Exemption</td>
<td>$11,580,000</td>
<td>$11,700,000</td>
</tr>
</tbody>
</table>

IRS Form 706; 2020 and 2021

Important considerations

► Which assets will be inherited?
► What rights may your surviving spouse have?
► Do you want children to receive some or all of your assets?
► How much control do you want to keep?
► What if a child has special needs? Or predeceases you?
► What about other beneficiaries?
► Philanthropic goals?

Life insurance as an estate planning tool

■ Maintain heirs’ lifestyles
■ Provide immediate liquidity
■ Pay death taxes
■ Equalize estate distributions
■ Increase bequests to family members and charities
■ Death benefits are generally income tax-free
Lifetime giving

- Annual gift tax exclusion
- Gift of the applicable exclusion amount
- Gift tax marital deduction

Estate planning/asset transfer checklist

- Have you previously thought about estate planning/asset transfer strategies?
- What have you done so far?
- What are the benefits of professional assistance?

Roadmap to financial wellness
Assemble a support team

- Financial professional
- Tax advisor and/or tax attorney
- Trust/estate attorney

Questions

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