Are You Prepared For The Financial Challenges Of Retirement?
Agenda

- Funding today’s retirement - *It’s shifting to individuals*
- Understanding the retirement challenges - *Living Longer*
- Outliving your retirement income - *Rising Costs*
- Inflation, taxes, healthcare - *Market Uncertainty*
- The impact of volatility and interest rates - *Addressing the challenges*
Retirement

- Critical period of your investing life
- Unique for everyone
- Defined based on your future
- A time of opportunity
Retirement income – yesterday & today

Yesterday
- NEST EGG
- SOCIAL SECURITY
- PENSION

Today
- NEST EGG
- SOCIAL SECURITY
- PENSION
Three challenges that can jeopardize your retirement savings

Challenge: LIVING LONGER
Outliving your retirement income
How can you create income that can last a lifetime?

Challenge: RISING COSTS
Inflation, taxes, healthcare
Have you saved enough to address rising expenses in retirement?

Challenge: MARKET UNCERTAINTY
The impact of volatility and interest rates
How can you help protect your retirement income against market downturns?
Living longer means we need to plan

The challenge is – How are we going to pay for it?
Consider:

• Life experiences are increasing dramatically
• Women tend to outlive men
• Retirement could last 30 years or more

Challenge: OUTLIVING YOUR RETIREMENT INCOME

Retirement could last longer than you think.
About one out of every three 65-year-olds today will live until at least age 90, and one out of seven will live until at least age 95.

Source: Social Security Administration, 2021.
Where will the money come from?

Challenge: OUTLIVING YOUR RETIREMENT INCOME

The Answer: YOU

- Key issues today:
  - Pension plans are on the decline
  - The future of Social Security is uncertain
  - 401(k)s and 403(b)s can leave investors unprotected against market volatility
Inflation: will your money keep up?

Retirement income amount needed to keep pace with inflation:

Challenge: KEEPING UP WITH RISING COSTS

Current Annual Income: $50,000

- 10 Years: $67,196
- 20 Years: $90,306
- 30 Years: $121,363

For illustrative purposes only. 3% is a hypothetical rate and actual inflation rates may fluctuate over time.
Taxes: will history repeat itself?

- National debt: Over $28 trillion\(^1\)
- Tax increase = less retirement income
- Could have a ripple effect on state and local taxes

\(^1\) [www.usdebtclock.org](http://www.usdebtclock.org) accessed November 2021
Healthcare’s escalating impact on retirement savings

Healthcare can take a healthy bite out of retirement savings

- It is estimated that a 65 year-old couple will need $300,000 to pay for medical expenses for the remainder of their lives.¹

Market volatility: Be wary of your emotions

Challenge:
PROTECTING AGAINST MARKET UNCERTAINTY
Addressing the challenges
Envision your retirement
When will you retire?
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
- Savings
- Your company pension benefits
- The rate of inflation
- Income tax rates
- Your health
A budget sets the course

- Develop a Budget
- Enhance an Existing Budget
- Generate Savings
Potential sources of income

- Social Security Retirement Benefits
- Part-time job
- Individual Retirement Account (IRA)
- Roth IRA
- Company-sponsored retirement plan
- Pension
- Cash value from life insurance
- Annuities
- Savings
- Inheritance
What does a good budget help do?

- Track spending
- Manage debt
- Curb impulse purchases
- Determine expenses in retirement
- Find ways to save more
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
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)
  • 403(b)
  • 457(b)
  • [TSP]
  • Pension plans
College funding

- 529 Plans
- Coverdell Education Savings Accounts

IN-STATE TUITION & FEES AT PUBLIC 4-YEAR INSTITUTIONS INCREASED AT AN AVERAGE RATE OF

1.1%

PER YEAR BEFORE ADJUSTING FOR INFLATION*

* Trends in College Pricing © 2020 The College Board
## Tax implications

<table>
<thead>
<tr>
<th>Pre-Tax</th>
<th>After-Tax</th>
<th>Potentially Income-Tax Free</th>
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</thead>
<tbody>
<tr>
<td>Company-sponsored retirement plan:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 401(k)</td>
<td>• Savings account</td>
<td>• Tax exempt bonds/funds</td>
</tr>
<tr>
<td>• 403(b)</td>
<td>• Certificate of deposit</td>
<td>• Education savings accounts</td>
</tr>
<tr>
<td>• 457(b)</td>
<td>• Mutual fund</td>
<td>• Life insurance death benefits</td>
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<tr>
<td>• [TSP]</td>
<td>• Annuities</td>
<td>• Roth IRAs</td>
</tr>
<tr>
<td>• Pension plan</td>
<td>• Real estate</td>
<td>• Roth accounts in company sponsored plans</td>
</tr>
<tr>
<td>Individual Retirement Account (IRA)</td>
<td></td>
<td>• 529 Plans</td>
</tr>
<tr>
<td>Simplified Employee Pension (SEP)</td>
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</tbody>
</table>

- 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.
- Tax-exempt income may impact the taxation of Social Security benefits and may have alternative minimum tax consequences.
- Qualified distributions are federally tax-free, provided the Roth account has been open for at least five 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.
1. Pay yourself first
Imagine if you saved this much each week...

<table>
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<tr>
<th></th>
<th>$25</th>
<th>$75</th>
<th>$125</th>
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<tbody>
<tr>
<td></td>
<td>$55,237</td>
<td>$165,709</td>
<td>$276,181</td>
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</tbody>
</table>

Compounded 4% Annual Rate of Return

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.
2. Pre-tax investing

<table>
<thead>
<tr>
<th></th>
<th>Not Contributing to Retirement Plan</th>
<th>Contributing to Retirement Plan</th>
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</thead>
<tbody>
<tr>
<td>Nick’s salary per week</td>
<td>$1,000</td>
<td>$1,000</td>
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<tr>
<td>Employee contribution to retirement plan</td>
<td>$0</td>
<td>$60</td>
</tr>
<tr>
<td>Taxable income</td>
<td>$1,000</td>
<td>$940</td>
</tr>
<tr>
<td>Federal tax and FICA</td>
<td>$162</td>
<td>$153</td>
</tr>
<tr>
<td>Nick’s take-home pay</td>
<td>$838</td>
<td>$787</td>
</tr>
</tbody>
</table>

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.
3. Tax-deferred investing

**Tax-Deferred**
- Invest
- IRA, 401(k), Annuity
  - Interest
  - Gains
  - Dividends
- Money to reinvest

**Not Tax-Deferred**
- Invest
- Taxable Accounts
  - Interest
  - Gains
  - Dividends
- Income Taxes
- Money to reinvest
4. Time and compounding

The Rule of 72…

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

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.
### 5. Dollar-cost averaging

<table>
<thead>
<tr>
<th>Purchase Date:</th>
<th>Jan '22</th>
<th>Feb '22</th>
<th>Mar '22</th>
<th>Apr '22</th>
<th>May '22</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investor A:</td>
<td>$5,000</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$5,000</td>
</tr>
<tr>
<td>Investor B:</td>
<td>$1,000</td>
<td>$1,000</td>
<td>$1,000</td>
<td>$1,000</td>
<td>$1,000</td>
<td>$5,000</td>
</tr>
<tr>
<td><strong>Amount Invested:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Price Per Share: | Investor A: | $10.00 | N/A    | N/A    | N/A    | N/A | $10.00 |
| Price Per Share: | Investor B: | $10.00 | $6.00  | $4.00  | $7.00  | $12.00 | $7.80 |
| **Price Per Share:** |         |         |         |         |         |       |       |

| Number of Shares Purchased: | Investor A: | 500 | N/A | N/A | N/A | N/A | 500 |
| Number of Shares Purchased: | Investor B: | 100 | 167 | 250 | 143 | 83 | 743 |
| **Number of Shares Purchased:** |         |         |         |         |         |       |       |

- 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.
6. 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
Rolling assets into current company-sponsored plan

- Compare the investment options between the old 401(k) 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 investor’s unique financial needs and retirement plans.
Taking Early Withdrawals
Key takeaways

- REVIEW
  Current Situation

- SET
  A Household Budget

- COMMIT
  To Save More

- CELEBRATE
  Stick to Your Goals
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